

Responsible Investment in Private Real Estate

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1. Introduction

As a long-term investor, PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) is committed to investing responsibly. PGGM manages its clients' Private Real Estate investments in order to contribute towards a stable pension for its participants while also taking into consideration its impact on the world. PGGM recognizes that environmental, social, and governance (ESG) factors have a material impact on the financial performance of the portfolio, especially in the longer term. As such, integrating ESG factors into investment analysis and decision-making processes is part of its fiduciary duty.

This guideline addresses PGGM's management of ESG issues with regard to Private Real Estate. The guideline is a further refinement of [PGGM's Responsible Investment Framework](#) and its implementation guidelines and the relevant fund prospectus and ancillary documentation. In addition, the obligations arising from compliance with legislation and regulations apply. The guidelines cover all investments made by Private Real Estate, effective as of 1 January 2021.

2. Investment strategy & approach

On behalf of PGGM's clients, the Private Real Estate team aims to build a globally diversified non-listed real estate portfolio in order to deliver a stable high-quality return. The objective is to beat a region-weighted real estate index based on total returns. Investments are mainly made in core products, which invest in rented real estate of good quality, with low financing and a low percentage of project development. Our investment beliefs are the following:



Portfolio companies are analysed and monitored on their strategic and financial merits as well as their ESG performance. The latter is expected to help reduce investment and reputational risks or increase (expected) returns of the portfolio. By having in place a transparent responsible investment guideline for private real estate, as further outlined in this document, and by actively taking into account ESG-related performance in investment decisions, the PRE team believes that it offers a positive contribution that is best practice and in line with the clients' stated objectives.

The PRE team aims to be fully compliant with obligations arising from legislation and regulations. The relevant standards, codes of conduct or (inter)national initiatives or legislation that apply and have an impact on implementation are discussed below. For more detailed information please see [PGGM Investments website](#).

3. Implementation

3.a ESG-integration

PGGM defines ESG integration as systematically taking into account those ESG factors that have a material effect on investment risk and return. Across its entire portfolio PGGM uses the [Materiality Map of the Sustainable Accounting Standards Board \(SASB\)](#) as the framework to identify material ESG factors per sector. Similarly, private real estate takes the SASB Materiality Map into account when analysing ESG risks and opportunities in the investment process.

ESG risks are defined as risks for the financial returns from material ESG factors. We address ESG factors in our entire investment process:

Selection phase

We require managers to have a clear vision and policy on ESG factors. ESG is an important part of our due diligence and manager/company selection process. We always include ESG key performance indicators, best practice reporting requirements and participation in relevant benchmarks on ESG in our contracts with managers and partners. Specifically, all our managers are required to participate in the [Global Real Estate Sustainability Benchmark \(GRESB\)](#) survey. PGGM is one of the founders of this benchmark. GRESB covers the entire ESG spectrum (environmental, social and governance). When screening (potential) investments for ESG risks, we specifically focus on those that are deemed to be financially material for the real estate sector according to the SASB-framework¹:

- Energy management;
- Water management;
- Management of tenant sustainability impacts;
- Climate change adaptation.

Monitoring phase

We monitor our investments on an ongoing basis and we meet with our managers at least once a year. ESG is an important part of our reporting requirements and the periodic review meetings. We use assessment and benchmarking results on ESG as input for management meetings, as these are a good starting point for discussions on ESG issues. Integrating ESG factors into our investment process leads to continuous improvements of the sustainability profile of our real estate portfolio, for example through increased transparency and reduction targets on energy consumption. Thereby leading to a virtuous cycle that limits the exposure of our portfolio to ESG risks. Also in the monitoring phase, we specifically focus on risks that are deemed to be financially material for the real estate sector according to the SASB-framework.

Transitional and physical risks deriving from climate change are considered a sub-set of ESG risks and are therefore covered by the ESG integration process of private real estate.

In our view, generating a reliable view on physical climate risk should be part of prudent portfolio management and investment due diligence. A meaningful analysis of the physical climate risk exposure requires precise knowledge of locational attributes of our global real estate portfolio. Therefore, we gathered exact longitude/latitude

information for all buildings in the portfolio. Subsequently, this detailed location information is enriched with climate risk metrics provided by Munich Re based on their natural hazard expertise. These metrics take into account both historic and forward-looking data, as well as various projection years and Representative Concentration Pathway (RCP) scenarios. This enables us to perform efficient exposure analyses on physical climate risk of individual risk locations or even entire portfolios.

With regard to transition risk, we are involved as a partner in the 'Carbon Risk Real Estate Monitor (CRREM)'. The CRREM project is backed by the European Commission and provides decarbonisation pathways globally for countries, sectors and assets in line with the Paris Agreement. These pathways represent the required reduction in GHG-emissions to meet the goals of the Paris Agreement. In addition, we are working on getting information on energy consumption levels of all individual buildings in our global portfolio. This would then enable us to quantify the transition risk for our portfolio.

Although individual incidents cannot be ruled out, PGGM PRE carefully considers, monitors and actively engages its real estate managers to mitigate these risks. Because of constant attention and engagement the risk of declines in portfolio value due to ESG risks is considered modest.

3.b Impact

PGGM Private real estate seeks to enhance the positive impact of its investments and to minimize adverse impacts.





Positive impact: investing in the SDGs

In 2016 PGGM and APG defined Sustainable Development Investments (SDIs) as "investments that yield market-rate financial returns while generating a positive social and/or environmental impact" (i.e. contribute to the Sustainable Development Goals). In 2020 Australian Super, British Columbia Investment Management Corporation joined APG and PGGM in the [SDI-Asset Owner Platform](#) which owns a taxonomy of products and services (solutions) that contribute to the SDGs. With a set of decision rules the taxonomy forms the basis for the classification of investments as 'SDI'.

PGGM's largest client's ambition is to increase the SDI volume to 20% of the total portfolio by 2025. The effort to measure portfolio companies' real-world impact, however, is currently limited to seven focus SDGs: #2 (zero hunger), #3 (good health and wellbeing), #6 (clean water and sanitation), #7 (affordable and clean energy), #11 (sustainable cities and communities), #12 (responsible consumption and production) and #13 (climate action). To estimate and monitor the impact on these focus SDGs, the indicators suggested by the [Working Group on SDG impact measurement of the DNB-facilitated Sustainable Finance Platform](#) are used.

¹ See: https://www.sasb.org/wp-content/uploads/2019/08/IF0402_Real-Estate-Owners_Brief-combined.pdf

PRE investments can contribute to several SDGs such as:

 <p>3 GOOD HEALTH AND WELL-BEING</p>	<ul style="list-style-type: none"> • (Construction of) affordable hospitals • Clinics • Elderly homes • Health care facilities
 <p>4 QUALITY EDUCATION</p>	<ul style="list-style-type: none"> • Schools • Universities (physical buildings) • Refurbishment of such facilities
 <p>7 AFFORDABLE AND CLEAN ENERGY</p>	<ul style="list-style-type: none"> • GRESB Quintiles 4 and 5
 <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>	<ul style="list-style-type: none"> • (Public / private partnerships to build) social housing • Student housing • GRESB Quintiles 4 and 5.

We aim to measure the social and/or environmental impact of all our SDI's. Within PRE, we predominantly use the GRESB survey to gather the impact data needed.

2. Minimise negative impact

The social and environmental impact of the capital entrusted to PGGM by its clients is significant. PGGM can stimulate a positive contribution to a sustainable world and has the responsibility to minimise adverse impact. Adverse impacts refer to negative impacts (harm) to individuals, workers, communities and the environment.

As from 1 January 2022 at the latest, PGGM shall avoid new investments in companies that are in very severe violation of the OECD Guidelines for Multinational Enterprises (hereinafter OECD guidelines) and/or the UN Global Compact principles. When feasible, PGGM shall undertake best efforts to divest existing exposures to these companies all together and/or shall engage with the companies, or a selection thereof, that are in (very) severe violation of the OECD guidelines and/or the UN Global Compact principles.

Based on its high likelihood and severity, climate change as a driver of adverse impact is prioritized. Clients of PGGM have committed themselves to the [Dutch Climate agreement²](#) and to the [Paris Climate Agreement](#) to align policies consistent with the objective to limit the global temperature rise to a maximum of 1.5 °C. The ambition is

to have a climate neutral investment portfolio by 2050 - in line with the ambition of the European Union and the Paris objectives.

In the private real estate department, we monitor our investments on an ongoing basis and we periodically meet with our managers. ESG, including (potential) adverse impact, is an important part of our reporting requirements and the periodic review meetings.

3.c Stewardship (engagement, voting, shareholder litigation)

PGGM private real estate actively uses its influence to achieve improvements in the ESG field, thereby contributing to the quality, sustainability and continuity of companies and markets. PGGM sees it as its responsibility to engage with market parties and companies about their policies and activities. In this way, it attempts to realise ESG-related improvements.

We require our private real estate managers to participate in GRESB. We use it throughout our real estate portfolio as an engagement tool to make sure our investments continuously become more sustainable. This does not only pertain to policy and transparency, but also in terms of implementation, measurement and reduction of energy consumption, GHG emissions, water consumption and waste diversion.

² In Dutch "Klimaatakkoord"

3.d Exclusion

[The PGGM Implementation Guidelines on Exclusion](#)

are applicable to investments in all asset classes. The PGGM-wide product-based Exclusion List consists of companies engaged in controversial weapons, tobacco, tar sands as well as thermal coal utilities and mining companies. In practice, these exclusions have no impact on PRE investments.

By excluding companies on the basis of the above elements, PGGM seeks to prevent PGGM-managed investments contributing financially to practices incompatible with the standards and values of PGGM, its clients and their beneficiaries.

4. Transparency

Each quarter the private real estate team provides an update of its responsible investment activities in the clients' quarterly report. This includes information regarding stewardship activities, impact investing and integration of ESG-factors in its investment decisions. Also, any relevant negative impacts and our monitoring of these impacts are reported. In addition the team contributes to [PGGM Investments annual Integrated report](#) and report on its responsible investment activities in the Principles for Responsible Investment (PRI) annual survey.

5. Annex

Please note that there is an Annex applicable for this ESG-guideline. This Annex forms an integral part of this ESG-guideline and may be updated from time to time. The applicable Annex is available on our website.

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