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RESPONSIBLE INVESTMENT
Annual Report 2009



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Management statement

PGGM Vermogensbeheer B.V. advises its clients on the investment policy on the basis of a strong conviction that responsible investment must form part of this policy. As the management of PGGM Vermogensbeheer B.V., we implement our clients' responsible investment policies.

Every year we account for the implementation of the responsible investment policy over the past year in an annual report. In compiling the PGGM Annual Responsible Investment Report 2009, we have adhered to the international reporting guidelines of the Global Reporting Initiative.

We have assessed the Annual Responsible Investment Report 2009 and declare that the information contained therein presents a true and fair view of the reality.

Zeist, 4 March 2010

Management of PGGM Vermogensbeheer B.V.

Else Bos

Johan van der Ende

Marc van den Berg

Jac Kragt

Letter from the CIO

Responsible investment is of great importance to PGGM. We are convinced that responsible investment pays and that financial and social returns go hand in hand. The inclusion of environmental, social and corporate governance (ESG) criteria provides added value for our investment process. The financial crisis, which also left its mark on the 2009 financial year, has strengthened us in this conviction. More than ever before, this crisis has alerted institutional investors to their responsibilities. We therefore take increasing account of ESG factors in our investments on behalf of our clients. We discuss these matters with companies and take an active approach towards supervisory and regulatory bodies.

One of the environmental factors which we take into account, for example, is climate change. PGGM visited Brussels during the year to discuss this subject with members of the European Parliament. For us this was a prelude to the climate negotiations in Copenhagen. We urged the MEPs to push for a strong climate agreement. Our message was well received, and that ensured that the meeting was successful from our perspective.

An example of a social factor which we take into account is violation of human rights. During the year we wrote to all the companies in the portfolio with operations in Sudan and Burma (Myanmar). Operating in these countries entails a heightened risk of human rights violations. We took this action because we want to know what we are investing in. At the same time we also want the companies in which we invest on behalf of our clients to be conscious of these risks.

With regard to corporate governance factors, we actively exercised our clients' voting rights in 2009. We were successful once again in this regard, voting at almost 4,700 meetings on over 40,000 agenda items. These figures mean that we voted at 99% of shareholders' meetings.

In 2008, we began to integrate ESG factors further into our investment processes. This integration continued unabated in 2009. For example, in the investments by the real-estate departments, material ESG factors were surveyed and integrated into the investment processes.

Outlook for responsible investment in 2010

We are continuing to integrate ESG in our investment processes in 2010. By the end of the year we will then have surveyed and characterised 100% of the ESG factors in the various investment processes.

Many people view PGGM as a leader in responsible investment. Innovation in this field is important for us, and we innovate partly out of a conviction that responsible investment is the natural way forward. Our clients also want to be able to pay good pensions, from funds that are managed responsibly. We see the world of asset management moving further in the direction of responsibility in 2010. PGGM will continue to contribute to this process. Our policy will remain fully in force in 2010 and we will continue to report on it in detail.

Johan van der Ende
CIO PGGM N.V.

1. PROFILE



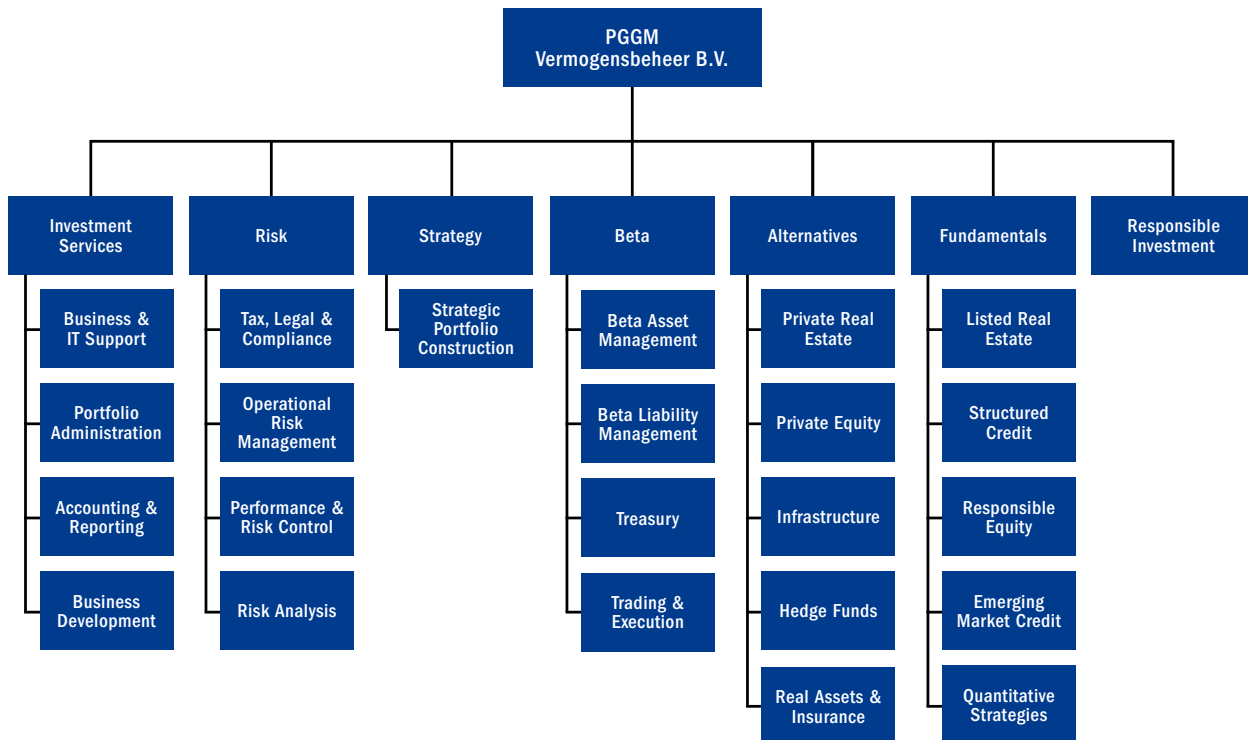
1.1 PGGM N.V. is an administrative organisation

As at 1 January 2010, PGGM N.V. had an Executive Committee comprising the following members: Martin van Rijn, Chief Executive Officer (CEO); Else Bos, Chief Institutional Business (CIB); Paul Loven, Chief Financial Officer (CFO); Johan van der Ende, Chief Investments Officer (CIO); Harry Vosseveld, Chief Operating Officer (COO); and Bart Blanken, Chief Marketing Officer (CMO) (from 1 March 2010). As CIO, Johan van der Ende has responsibility within the Executive Committee for the Responsible Investment Policy and its implementation. PGGM Vermogensbeheer B.V. (PGGM's investment organisation, which falls within the remit of the CIO and is referred to in the remainder of this report as PGGM or PGGM Vermogensbeheer) employs 215 people, all of them in the Netherlands.

PGGM carries out asset management for Stichting Pensioenfonds Zorg en Welzijn, Stichting Bedrijfstak-pensioenfonds voor de Particuliere Beveiliging,

Stichting Beroepspensioenfonds voor Zelfstandige Kunstenaars AENA and Stichting Pensioenfonds voor de Architectenbureaus. PGGM manages various equity funds on behalf of its clients. It also manages discretionary portfolios in which assets belonging specifically to one of our clients are invested. References to 'clients' in this annual report refer to both clients of PGGM Vermogensbeheer investing in the funds and clients for whom we manage discretionary portfolios. The activities described in this annual report – such as, but not limited to, voting and engagement activities – are carried out by PGGM Vermogensbeheer on behalf of its clients.

PGGM advises its clients on the investment policy on the basis of a strong conviction that responsible investment must form part of this policy. PGGM's clients nevertheless remain the owners of the outsourced pension capital and determine their own pension and investment policy. PGGM is therefore an asset manager and always invests on behalf of its clients.



1.2 Our activities

Our clients are responsible for the pensions of over two million Dutch participants. They have entrusted PGGM with the task of providing comprehensive asset management. PGGM manages the investments on the basis of fundamental risk factors in financial markets. Six convictions form the guiding principles for our actions and our added value in the investment process:

- no high return without risk;
- risk diversification is essential;
- added value is achievable for PGGM;
- cost efficiency has an impact;
- exploitation of our strength as a long-term investor;
- responsible investment pays.

The entire investment organisation conducts responsible investment on the basis of this vision. In order to provide support, a special department with eight employees was created, devoted entirely to responsible investment.

This was expanded to nine employees in 2010.

1.3 Composition of the managed investment portfolio

PGGM manages a diversified investment portfolio with 11 categories: commodities, high-income bonds, inflation-linked bonds, infrastructure, liquid equities (listed shares), POS (Portfolio of Strategies), private equity (unlisted shares), government bonds and credits, structured credit, real estate, and cash and other assets.

In 2009, the POS department was divided into several departments, including Real Assets & Insurance, Hedge Funds, Emerging Market Credit and Quantitative Strategies. The financial information for 2009 still relates to POS, but when we speak about activities in the investment portfolio we will do so on the basis of the new structure.

PGGM and socially responsible enterprise

PGGM strives to operate responsibly. We keep our carbon footprint as small as possible by reducing and offsetting our own CO₂ emissions and using only green electricity.

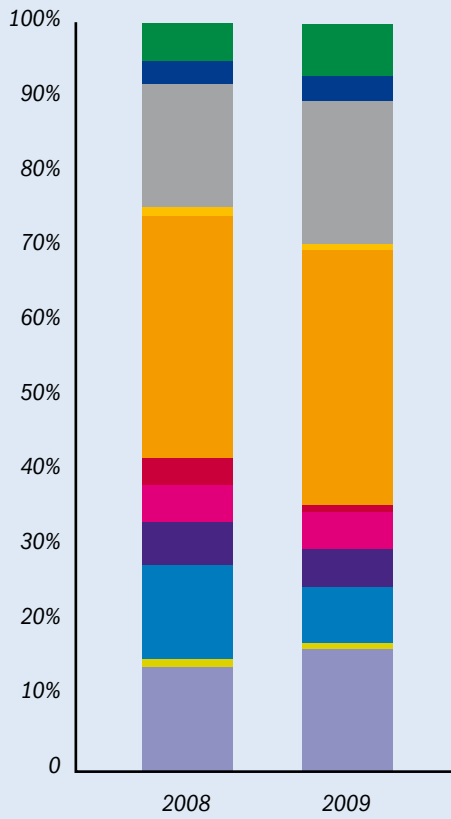
In the expansion of our head office, we are using sustainable materials and installation techniques which reduce energy consumption. For the heating and cooling of the building, for example, we have chosen a system that uses groundwater. When the new office building enters service in 2011, we will introduce our 'new working' methods, making efficient use of office space.

Our employment conditions and collective labour agreement are based on responsible enterprise. The mobility policy excludes the most polluting categories of leased vehicles and aims to encourage the use of public transport and cycling. Our age-aware personnel policy is another good example of this. PGGM has a 'Greenteam' which draws attention to green and socially aware business operation.

We are also transparent in our governance and remuneration policy and publish our annual report on our website.

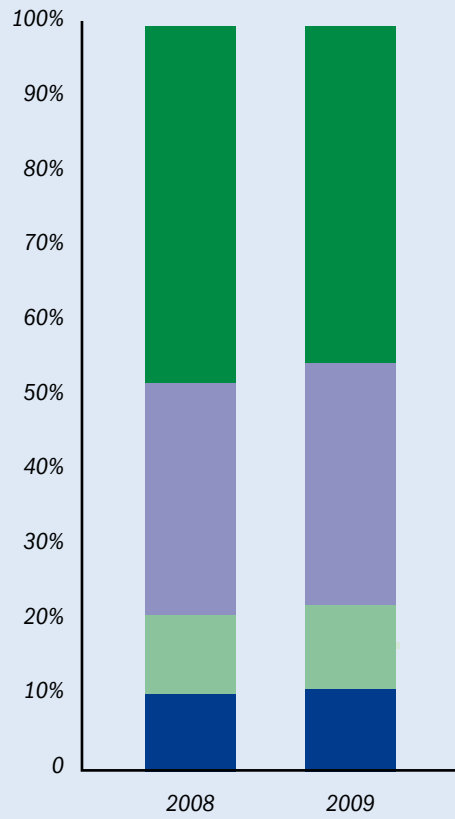
We contribute to society by taking part in discussions and meetings on income, care and living, and engage in discussions with the members of our co-operative organisation.

Breakdown into categories of managed investments



- *Commodities*
- *High-income bonds*
- *Inflation-linked bonds*
- *Infrastructure*
- *Liquid equities*
- *Cash and other assets*
- *POS*
- *Private equity*
- *Government bonds and credits*
- *Structured credit*
- *Real estate*

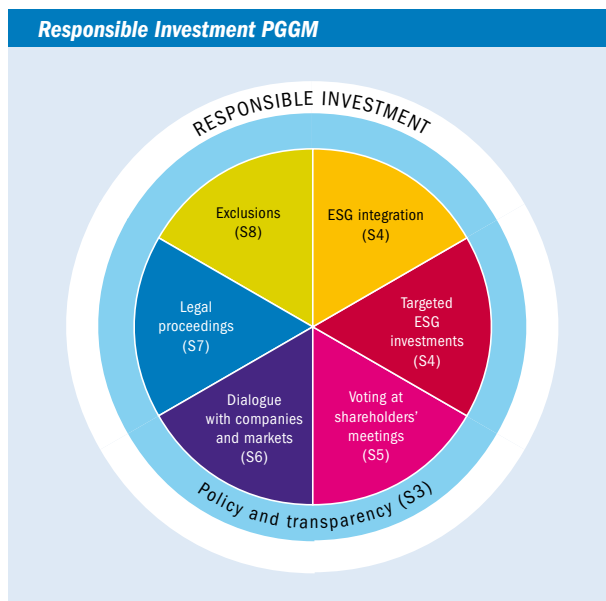
Breakdown of managed investments by region



- *Europe*
- *North America*
- *Far East*
- *Emerging markets*

1.4 Implementation of Responsible Investment Policy and main results

We define responsible investment as the overall investment activities which deliberately take account of the impact of environmental, social and corporate governance (ESG) factors. We do that in various ways, according to a method specified in our policy. In the diagram below, we show the components which constitute PGGM's responsible investment activity. This involves not only investment decisions (particularly ESG integration and targeted ESG investments), but also the broader investment activities (such as exclusions, voting, engagement and legal proceedings). The section in which the specific responsible investment component is described is shown in brackets. Not all components relate equally to all investment categories. The activities shown in the diagram below represent at least 98% of the total assets under management.



The results of the responsible investment policy conducted in 2009 can be expressed in terms of the key performance indicators (KPIs) shown on the next page. These relate to all investment categories and investment activities and are described in the forthcoming sections.

The targets which we set at the end of 2008 for 2009 (see 2008 Annual Responsible Investment Report) were all met or exceeded. For example, the percentage of total assets under management covered by the Exclusions Policy is in line with the target. Both targets relating to voting were also met. As a percentage of the total number of shareholders' meetings, we voted at 4% more than the number set as a target. We also voted at 1% more shareholders' meetings as a percentage of the Voting Focus List. In addition, by engaging with 48 companies in 2009, we exceeded our engagement target by 18 companies. Our commitments with regard to targeted ESG investments grew by €151 million in 2009. We therefore exceeded the target of €2.5 billion.

Results and targets of key performance indicators				Target
	2007	2008	2009	2010
ESG integration				
Started or completed in phase 1 Inventory (as % of total assets under management)***			56%	100%
Started or completed in phase 2 Implementation (as % of total assets under management)***			20%	>20%
Targeted ESG investments				
Volume of targeted ESG investments/commitments (€ million)	1,700	2,400	2,568	4,000
% of targeted ESG investments in total assets under management *	1.9%	3.3%	2.9%	
Exclusions				
Number of excluded companies	29	30	33	
% of total assets under management covered by the Exclusions Policy *	90%	98%	98%	≥98%
Volume of exclusions relative to FTSE All World benchmark	0.9%	1.2%	1.2%	
Voting				
Number of shareholders' meetings (AGMs and EGMs) at which votes were cast *	2,025	4,792	4,678	
Number of votes cast	18,018	40,618	40,819	
Number of AGMs and EGMs at which votes were cast as % of total number of AGMs and EGMs **	41%	92%	99%	≥95%
Number of AGMs and EGMs at which votes were cast as % of Voting Focus List	70%	99%	99%	≥99%
Engagement				
Number of companies engaged with indirectly (through F&C) *	715	569	495	
Number of companies engaged with directly *	13	34	48	≥48
Value of companies engaged with as % of managed equity portfolio	41%	48%	48%	
Legal proceedings concerning share ownership				
Active proceedings	1	2	3	
Proceeds of class actions	€4,646,307	€3,674,956	€6,574,827	
Key data				
Volume of total assets under management (€ billion, year-end) *	88	72	88	
Volume of total managed equity portfolio (€ billion, year-end) *	36	28	36	
Number of companies in total equity portfolio (year-end) *	4,230	4,340	4,248	

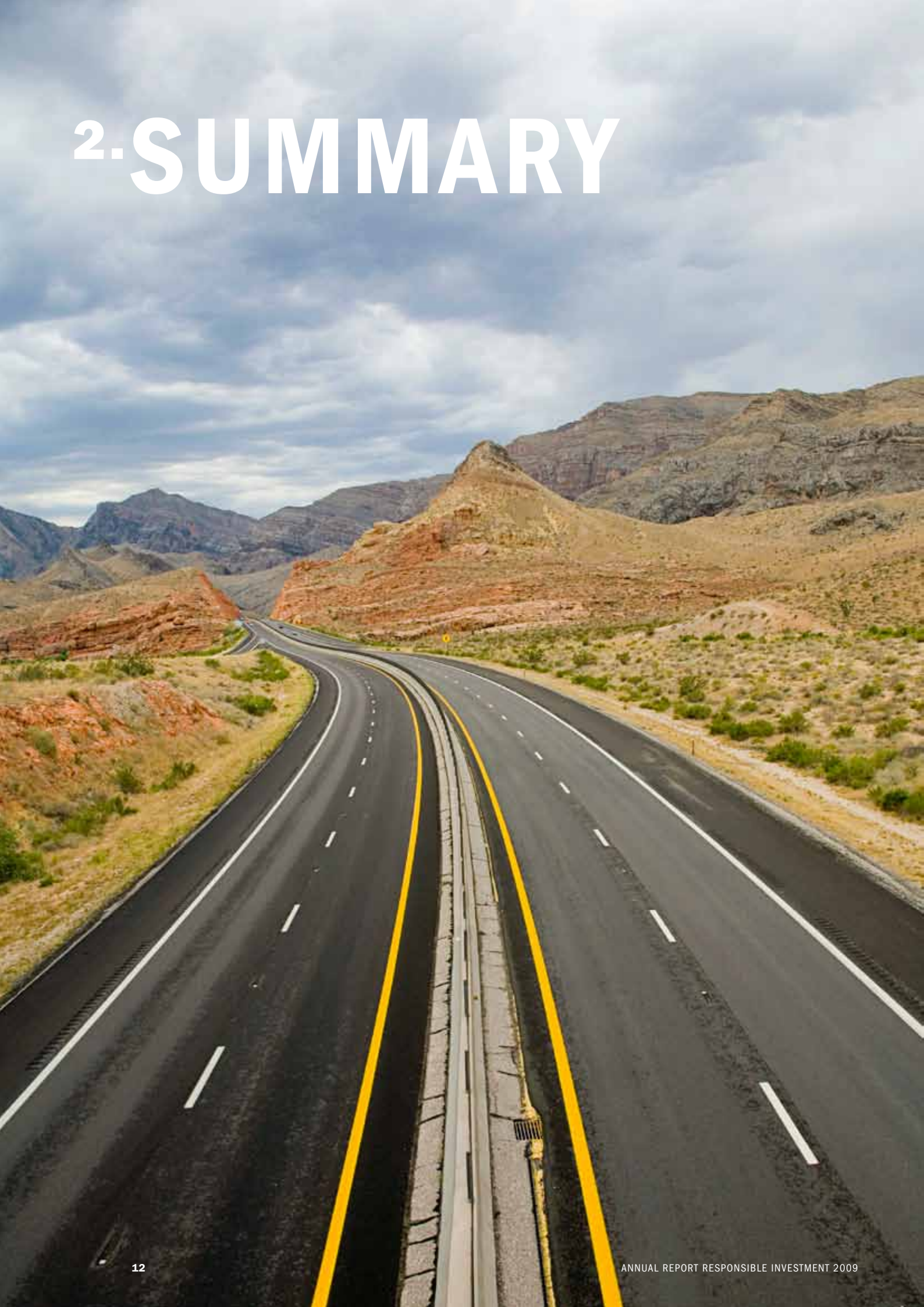
Note: No targets apply in the case of some of these components. For example, the number of companies to be excluded is not a target per se. In addition, the assets under management at the end of 2010 are not yet known; therefore, except for the application of the Exclusions Policy, targets are not stated as a percentage of assets under management in these cases.

* = Global Reporting Initiative indicators from the Financial Services Sector Supplement (2008 version). The GRI is a global standard for reporting on ESG factors by companies.

** The 2010 target and the 2009 result relate to the number of meetings at which votes were cast excluding blocking markets.

*** This is a new indicator which was used for the first time in 2009. No figures are available for earlier years.

2. SUMMARY



All our targets were met in 2009. We have a higher voting percentage, more self-initiated dialogue projects and more targeted ESG investments. We voted at 4,678 shareholders' meetings around the world on more than 40,000 agenda items on behalf of our clients. That represents over 99% coverage. A number of concrete successes were achieved in our dialogue with companies. Our exclusions policy also covers 98% of the total portfolio.

This annual report provides an overview of PGGM's Responsible Investment Policy and the activities conducted in this field. We believe that responsible investment pays and that financial and social returns go hand in hand. The ambition is that the Responsible Investment Policy should be applied to all investment categories.

Policy and transparency

PGGM's history of responsible investment goes back to 1985, when it still formed part of what is now Pensioenfond's Zorg en Welzijn. Our current Responsible Investment Policy emphasises the strategic importance of responsible investment. The United Nations Principles for Responsible Investment (PRI) provide the overarching framework together with our own policy. We focus our activities on five themes: human rights, weapons, good corporate governance, climate change and health. We ensure transparency in the implementation of our policy, among other things by publishing this annual report and quarterly reports.

ESG integration

A structural plan for the integration of ESG was drawn up in 2009. ESG integration means: 'systematically adding financially material ESG factors to existing investment processes'. In order to do this systematically, we currently have three phases in each investment category: survey, implementation and internalisation. These were implemented in a number of departments and investment categories in 2009. 56% of the assets which we manage is in the survey phase or has now completed this phase. The infrastructure department has taken major strides in this process. The survey processes initiated in 2008 were further developed by the Real Estate departments in the implementation phase in 2009.

This resulted among other things in a 'Responsible Investing for Real Estate' policy. Work had already been carried out in 2008 with Alpinvest Partners N.V. (hereinafter: Alpinvest) on the structural integration of ESG factors in Private Equity investments. This work was intensified in 2009. Initiatives were also taken to incorporate ESG in the Beta portfolio and the Strategic Asset Allocation.

Targeted ESG investments

In a number of cases we make targeted investments in ESG themes. The volume of these targeted investments grew to €2.6 billion at the end of 2009. PGGM has a department dealing specifically with targeted ESG investments in the equity portfolio. This department manages the €1 billion of assets in the responsible equity portfolio. The portfolio's objective is to achieve good returns by investing in responsible companies.

PGGM also operates a number of strategies which can be deemed to constitute targeted ESG investment. For example, through Alpinvest we invest in a number of cleantech funds focused on clean technology and the infrastructure portfolio includes a number of sustainable energy projects, such as wind farms and hydroelectric power plants. The real asset and insurance portfolio also includes a forestry fund in which we work with nature conservation organisations. PGGM also has a strategic alliance with Albright Capital Management. They make targeted investments in emerging markets and ensure that ESG factors weigh heavily in their choices. They also actively seek to improve the behaviour of companies and local regulations. Finally, we also invest in microfinance.

Voting

The principal aim of our voting policy is to cast well-informed votes on behalf of our clients at all shareholders' meetings. We form our own judgements in order to cast informed votes on all the shares of companies included in the Voting Focus List. These are companies which have a certain strategic value for our clients, including all Dutch companies and companies in which we hold a high-percentage interests. In 2009, these amounted to 98 listed companies. When voting on shares of other companies we use a specialist service provider on the basis of voting guidelines developed by PGGM. We monitor such voting beforehand and where necessary vote ourselves. The meetings at which votes were cast in 2009 represent 99% of the total number of ordinary and extraordinary general meetings of shareholders of the companies in the managed portfolio. The 2009 target of voting at 95% of all meetings was therefore comfortably achieved. If our voting at meetings of companies on the Voting Focus List differs from the management's recommendation, we send letters to these companies. We do this on the one hand to explain our voting behaviour and on the other hand to encourage the company to take account of our views. We sent 35 such 'vote against management' letters in 2009.

Engagement

PGGM believes it has a responsibility to encourage companies and markets to amend their policy and activities in the ESG Field where necessary. We call this engagement and define it as the overall activities which give rise to a dialogue with companies and market participants. The discussions with market participants, such as supervisory bodies and policymakers, are usually aimed at influencing relevant legislation and regulations. In our engagement activities we apply four main themes: corporate governance, human rights, climate change and health. These are translated into action plans.

A total of 53 new engagement processes were initiated in 2009. PGGM itself implemented 81 engagement projects with companies and markets during the year. As a representative of PGGM, the British company F&C carried out 1,528 engagement projects, targeted at 495 companies. Since PGGM invests in an average of only 0.13% of the outstanding shares of a company, in many cases we work with other institutional investors worldwide in order to bring about improvements in the ESG field. The engagement projects which PGGM carried out itself led to 17 successes in 2009. F&C achieved 304 successes for PGGM during the year. PGGM and F&C have more or less equal success ratios.

For the human rights theme, our focus during the year was again on companies involved in human rights violations and companies operating in Burma (Myanmar) and/or Sudan. We approach these companies with regard to the responsibilities involved in doing business in these countries.

On the climate change theme, our activities included talks in Brussels with members of the European Parliament as a prelude to the climate negotiations in Copenhagen. We urge them to push for a strong agreement. We also visited oil sands in Canada and discussed the related issues with companies and local authorities.

On the subject of corporate governance, the particular focus during the year was on remuneration policy, the improvement of corporate governance guidelines and the exercise of voting rights. We took the first steps towards the introduction of a 'voting by poll' standard in Asia (whereby every single vote counts in the result) and attended shareholders' meetings.

Within the healthcare theme, our focus areas in 2009 included the pharmaceutical industry, with specific attention being devoted to access to medicines. PGGM signed the investors' declaration for the Access to Medicine Index.

Legal proceedings

The conducting of legal proceedings both in the Netherlands and abroad is an important part of our policy. In the United States, shareholders can claim damages and/or bring about improvements in corporate governance by means of class actions. We systematically monitor all class actions in the United States. The total proceeds of class actions for PGGM's clients in 2009 amounted to €16.6 million (cumulative total since 2004). Further progress was made in active proceedings in 2009, including in the Bank of America case.



Exclusions

Our exclusions policy focuses on the production and trading of controversial weapons (such as nuclear weapons and landmines) and on activities involving violations of fundamental human rights and labour rights. At the end of 2009, 33 companies were excluded, including 32 on the basis of the weapons criterion and one on the basis of the human rights criterion. PGGM also excludes the government bonds of Sudan, Somalia, Burma (Myanmar), Iran and North Korea. The Exclusions Policy is applied to 98% of the assets which we manage. In 2009, we began to apply the Exclusions Policy more structurally to the hedge fund portfolio.

Outlook for 2010

PGGM carries out responsible investment on an integrated basis on behalf of its clients. Responsible investment is important to us and innovation in this field is a necessity. Key features of 2010 will be the 100% survey of ESG factors across all investment activities, a continued high percentage of voting, further growth in the number of self-initiated engagement projects and constant high coverage under the Exclusions Policy. Finally, we are continuing to focus attention on transparency with regard to our policy and the results we achieve, amongst others through our website.

3. POLICY



Responsible investment is not new to PGGM. We have actively focused attention on the subject since 1985, when PGGM was still part of what is now Pensioenfonds Zorg en Welzijn. That was the year in which we began to specify conditions for our investments. We excluded a number of investments on the basis of social unacceptability.

Subsequently, in 2001, we tightened our criteria on weapons and added further criteria concerning human rights. We also initiated various forms of targeted responsible investment. In the autumn of 2005, a working group assessed the policy on responsible investment. This resulted in a new definition and a new framework for responsible investment, and ultimately in a new policy. This Responsible Investment Policy came into force in 2006. In 2007, it was broadened with the addition of the new exclusions policy and the Listed Equity Ownership Policy (LEOP). PGGM has redrafted these policy documents in its capacity as an asset manager (available at www.pggm.nl).

3.1 Responsible Investment Policy

PGGM's Responsible Investment Policy emphasises the strategic importance of responsible investment. The Principles for Responsible Investment (see box) serve as our overarching policy framework. Our aim is to apply the Responsible investment policy to all investment categories.

The key points of the Responsible Investment Policy are:

- active backing for the conviction that financial and social returns can go hand in hand;
- exploiting sources of return in cases where the influence of ESG factors plays an important role;
- representing shareholders actively to contribute to the quality and continuity of companies;
- expressing our identity in terms of the limits of the investment policy and choosing specific focus areas on the basis of that identity;
- encouraging partners in the financial sector to practise responsible investment; and
- accountability with regard to targets, activities and results in the field of responsible investment.

As a reflection of our identity, PGGM has opted to focus attention on the following specific areas: health, corporate governance, climate change, human rights and weapons. These themes were adopted after extensive consultations with our clients, their participants and various social organisations.

United Nations Principles for Responsible Investment

In 2006, PGGM, which was then still part of what is now Pensioenfonds Zorg en Welzijn, was a member of an international working group of institutional investors that formulated principles and characteristics of responsible investment at the invitation of the Secretary-General of the United Nations. This initiative led to the presentation of the six 'United Nations Principles for Responsible Investment (PRI)'. These serve as our overarching policy framework for responsible investment. The PRI has a Board comprising delegates of PRI members. Else Bos, Chief Institutional Business of PGGM N.V., sits as a member of the PRI Board on behalf of Pensioenfonds Zorg en Welzijn. The Board is assisted by a professional secretariat and working groups consisting of delegates of PRI members. PGGM plays an active part in all PRI working groups.

3.1.1 Exclusions policy

The Exclusions policy lays down firm conditions for our investments. The aim of the Exclusions policy is to not invest in companies and/or government bonds which do not fit in with the identity of PGGM and/or its clients. The exclusion criteria are focused on controversial weapons and human rights (see section 8).

3.1.2 Listed Equity Ownership Policy (LEOP)

The Listed Equity Ownership Policy (LEOP) flows from the Responsible investment policy. The LEOP describes the way in which we conduct active share ownership on behalf of our clients. It defines general principles and best practices for investments in listed companies. Our clients invest in funds and/or have discretionary portfolios which we manage. PGGM fulfils the shareholder rights and duties of these funds and discretionary portfolios, as we believe that using these rights contributes to the quality and continuity of companies and the creation of shareholder value in the short and long term. As a representative of our clients, we approach companies on specific subjects, such as their business strategy and ESG. We do that partly by exercising the right to speak and vote at shareholders' meetings and by engaging with companies. As a last resort, we institute legal proceedings or divest or exclude companies completely.

3.1.3 Updating the policy

Both internal and external developments make it necessary to assess and update the Responsible investment policy from time to time. At the end of 2009 PGGM began to review the policy, and the assessment showed that an update would be desirable.

The Responsible investment policy and the associated policy documents will be updated on that basis where necessary in 2010. The 'Pensioen: Onzekere Zekerheid' [Pensions: An Uncertain Certainty] report was also published on behalf of the Ministry of Social Affairs and Employment in 2010. PGGM will incorporate the report's recommendations in its updated policy.

3.2 Transparency

We believe it is important to account to our clients and stakeholders. We therefore set great store by transparency with regard to our policy, activities and the results achieved through responsible investment.

3.2.1 Clients and stakeholders

We aim to be a reliable partner for a wide group of stakeholders, such as our clients and their participants, the companies in which we invest, public authorities, trade unions, social organisations and the local community. To that end we maintain a dialogue with various stakeholders. The interests and expectations of these stakeholders may sometimes conflict. We therefore inform stakeholders about our policies and the results we achieve. As far as possible, we aim to address the expectations of our stakeholders. Although we invest relatively large sums, our influence is not always as great as is believed. Our task is to investigate and determine the limits of our responsibilities and possibilities. We are convinced that a constructive dialogue with stakeholders contributes to both our financial and our social performances. In 2009 we discussed this with our clients and various trade unions, non-governmental organisations and political parties.

3.2.2 Reporting

Reports are an important means of ensuring transparency with regard to our policy, activities and the results achieved through responsible investment. We draw a distinction between specific client reports, which are compiled confidentially for our clients, and public reports. The PGGM Annual Responsible Investment Report is the main public document on responsible investment.

Every quarter we publish the PGGM Quarterly Report on Active Share Ownership on our website, in which we provide quantitative and qualitative information on our voting and engagement activities and results.

PGGM supports complete openness with regard to investments. We therefore give our clients an annual opportunity to publish their investment portfolio and the parties with which PGGM is doing business on their behalf. PGGM believes that its clients' participants are entitled to know how their pension monies are being invested. That means participants must be able to see how the investment policy is being implemented in concrete terms in their pension fund's investment portfolio. On the basis of this conviction, we have developed a publication policy for clients and PGGM helps its clients to take the initiative by adopting a concrete and progressive approach in a spirit of openness.



PGGM also provides information online showing how we have voted in respect of each company and each agenda item at shareholders' meetings. An explanation is provided for each agenda item on which we have voted against the management's recommendation.

Our information is accessible through the PGGM website (www.pggm.nl). Almost all public information on responsible investment can be found there in Dutch and English.

3.2.3 Public debate

As in previous years, PGGM employees once again frequently took part in discussions and debates on responsible investment in conferences, panels and working groups in the Netherlands and abroad. We do this because we set great store by two key points of our policy: accounting for our activities and acting as a partner to encourage the financial sector to practise responsible investment. We also talk to stakeholders about our policy. For example, we spoke at the Eumedion symposium in Rotterdam, the Sustainable Investment in India congress in Mumbai and the Asian Investors' Forum. We also spoke at the OECD Corporate Governance Roundtable in Manila and on Capitol Hill (the United States Congress) in Washington, where we talked to US Representatives about the financial crises and the financial and corporate governance reforms intended to restore confidence in the US capital market.

3.3 Operational objectives for responsible investment

Responsible investment has been increasingly integrated and thus became an integral part of our investment policy and activities in the last few years. Practically the entire investment organisation therefore has a role and responsibility in the implementation of the Responsible investment policy. The Responsible Investment department plays a central role in its integration and implements part of the activities. The Responsible Investment department is also responsible for maintaining and updating the policy and for ensuring transparency with regard to responsible investment.

4. INVESTMENT DECISIONS



Because we believe that social and financial returns go hand in hand, responsible investment is an integral part of our investment decisions. There are two main ways in which we implement responsible investment in our investment decisions: integration of ESG factors and targeted ESG investments.

4.1 Integration of ESG factors in investment decisions

PGGM takes the effects of environmental, social and governance (ESG) factors into account in its investment decisions. This is known as 'ESG integration' and is a result of our Responsible Investment Policy in which we state that ESG factors can have a material impact on the risk and/or return of investments. PGGM is convinced that ESG factors are set to become more important in the future. We therefore see it as our responsibility to consider the opportunities and risks associated with ESG factors in our investment decisions. Integration thus contributes to the achievement of a higher and more stable return.

Definition and view of ESG integration

ESG integration means: 'systematically adding material ESG factors to existing investment processes'. By 'material ESG factors' we mean those factors which have a significant financial impact on the underlying investment. This includes, for example, the likelihood of corruption and bribery or damage to the natural environment and what kind of financial consequences this could have for the investment. The aim of ESG integration is to ascertain which ESG factors are material in each investment category. There are major differences between investment categories, for example due to the nature of the investment, the extent of risk, term and liquidity, and all these elements play a part in determining the relevance of ESG factors. As a result of this analysis, we determine how the ESG factors should be expressed in all investment processes and in all investment categories. In that way we can implement ESG integration in various ways across the various investment categories. This means that we analyse ESG factors and incorporate them into the investment process for each category, adopting a structured approach in each investment category. The integration process in each investment category takes place in three phases:

Phase I Inventory: in this phase we draw up an ESG framework for the investment category. We investigate and determine which and to what extent environmental, social and governance factors affect the financial performance of the underlying investments.

Phase II Implementation: in this phase we determine how the specified ESG framework is expressed in the investment process. Examples are the addition of an ESG section in the due diligence process, the drafting of a specific responsible investment policy or the addition of ESG criteria with a financial impact to the selection process.

Phase III Internalisation: in this phase ESG factors form a natural part of the overall investment process. This means among other things that ESG is part of the normal routine of the investment process and is periodically assessed and adapted if necessary.

Not all investment categories have progressed to the same extent through the integration process. In some categories, the process has not been started yet in 2009. These will be started in 2010. Infrastructure and Beta investments are in the inventory phase. Real Estate and Private Equity have reached the implementation phase. There are currently no asset classes in phase III. We are not therefore reporting on this phase in this annual report. Below we describe the activities we have undertaken in each phase and each investment category.

1. At PGGM, investment processes are described and documented and form the basis for investment decisions.

4.2 ESG integration in each phase

4.2.1 Inventory phase

Beta investments

The aim of beta is to replicate the benchmark return of the liquid asset classes efficiently within strict risk frameworks. It is based on the strategic benchmark for listed equities, fixed-income securities, high-income bonds, inflation-linked bonds and commodities. These are portfolios in which relatively little risk is incurred in comparison with the benchmark. Following an investigation, the conclusion was reached in 2008 that ESG factors could not be readily incorporated in the current investment process. PGGM launched an investigation in 2009 to determine whether we could replicate the benchmark return of the liquid asset classes in a different way, taking into account the existing strict risk frameworks. This could involve a major change in the beta investment process. We are investigating particularly whether it is possible to include ESG factors in the new investment process. The first results of this investigation are expected in 2010.

Infrastructure

PGGM invests in infrastructure worldwide on behalf of its clients due to the expected stable and attractive returns over the long term. The investments consist of projects in the regulated sector, monopolies or with long-term purchase contracts, with the contracting party being the government in some cases. The cash flows are consequently stable, possibly inflation-linked and relatively insensitive to fluctuations in the economic cycle. PGGM invests in infrastructure projects both directly and through funds.

We began the inventory phase in the fourth quarter of 2009. Environmental, social and governance factors play an important role in infrastructure, for example with regard to the environment and labour rights. Because infrastructure is a very diverse investment category, we carry out the survey phase in each sub-sector. An ESG framework has been developed for four sub-sectors: gas storage; toll roads; distribution networks for gas, water & electricity; and power plants. A number of ESG factors have been found to be relevant to all sectors. These include in particular biodiversity and climate change. In 2010 we will investigate how the findings from the inventory phase can be implemented in the investment process.

4.2.2 Implementation phase

Real estate

In the real estate investment category, the 'Inventory' phase was completed in 2008. Further progress was made with phase II in 2009, and we investigated how the ESG framework from phase I could be applied jointly or separately to the investment processes for both Private and Listed Real Estate.

This led among other things to a new policy for Private and Listed Real Estate and research by Maastricht University:

- 'Responsible Investing for Real Estate (RIRE)' policy: in the first half of 2009, PGGM developed and published a specific policy on Responsible Investing for Real Estate (RIRE). Further information on this policy can be found on the PGGM website.
- Together with a number of Dutch and international institutional investors, PGGM commissioned research by Maastricht University into the extent to which real estate companies and funds implement sustainability in their investment processes. This demonstrates our aim of being actively involved in this field. The research is intended to show the extent to which the management of environmental aspects in particular is integrated into listed and unlisted real estate funds. It is the first time that such research has been conducted on this scale. It addresses two dimensions: the existence of a policy and its actual implementation and supervision. On the basis of the results, Maastricht University is developing an index which we can use to compare individual real estate funds. The results of this research were published and presented in London in January 2010.

In the real estate segment, real estate companies which score better on environmental factors have higher occupancy rates and higher rental incomes. Moreover, such properties have lower usage costs and tax charges. The implementation of ESG factors is expressed in various ways in the investment processes for Private and Listed Real Estate.

2. The beta portfolio is nevertheless subject to the Listed Equity Ownership Policy (voting and engagement on listed equity) and the Exclusions Policy.

Private Real Estate

In the case of Private Real Estate we expect the integration of ESG factors into our investment processes to contribute to a high and stable return. We systematically monitor the real estate funds in which we invest. In the reporting requirements we stipulate that fund managers must report on their ESG policy and the results they achieve. With regard to environmental aspects, we expect to be provided with information on energy and water consumption, waste collection and recycling, and CO₂ emissions.

A green office block

We urged a German real estate fund engaged in redeveloping an office block in Frankfurt to do so on a sustainable basis. There were various scenarios for the block, ranging from refurbishment to complete demolition and rebuilding. From our perspective, redevelopment while maintaining the existing structure was the most sustainable option. The project is an ambitious one: to make the offices one of the greenest redevelopments in Germany. The design process is now well under way.

Zero-energy office

In 2009 we invested in a French real estate fund which is set to develop the first 'zero-energy' office in France. Zero-energy means that the office generates as much energy as it consumes. The energy is generated by means of solar panels. The office is to be built in Paris.

Listed Real Estate

The Listed Real Estate team incorporates ESG factors in its valuation models and consequently includes them in its investment decisions. This results in a higher expected share value for these companies. The investment team actively pursues dialogue with companies and sector organisations in order to improve their performance in terms of sustainability and share best practices with them. Work is being carried out, for example, on reporting standards in relation to energy and water consumption.

Private Equity

We invest in Private Equity worldwide through AlInvest Partners N.V. PGGM N.V. owns 50% of AlInvest. In 2008, we worked with the company on the integration of ESG factors in all Private Equity investments. This resulted in a structural approach and a policy framework for responsible investment for the Private Equity portfolio. AlInvest has appointed a manager of responsible investment who supports the portfolio managers with ESG integration. AlInvest is thereby demonstrating its desire to play a leading role also in the field of responsible investment.

AlInvest has its own 'Corporate Social Responsibility (CSR) Policy' and is a signatory to the UN PRI. As part of its CSR policy, AlInvest includes ESG factors in the investment and portfolio management process. For example, these factors form an integral part of the due diligence process. AlInvest also holds discussions with private equity funds on ESG matters. In 2009, AlInvest was involved in a number of initiatives in the Private Equity sector, including a Private Equity working group on the Principles for Responsible Investment (PRI) and the Institutional Limited Partner Association (ILPA). PGGM monitors these activities of AlInvest and takes part in the PRI working group itself as a co-founder.

In 2003, AlInvest invested in Waste Recycling Group (WRG), a British company, as part of a consortium led by Terra Firma Capital Partners. WRG was mainly a waste processing company with a number of smaller activities, including in the field of sustainable energy.

WRG merged with its competitor Shanks in 2003. The company was split into a waste processing business and a sustainable energy producer. The waste processing business was sold in 2006. The remaining energy producer, Infinis, holds the lifetime rights to the methane gas released in the composting of the waste at the landfill sites. This is converted into usable energy and distributed through the electricity grid. Infinis has a production capacity of 296 MW and currently produces around 10% of all sustainable energy in Great Britain. The British government has set itself the target of raising the proportion of sustainable energy from the current level of 5% to 20% in 2020. Infinis is well placed to play an important role in this fast-growing market.

Infinis aims to grow further in the future to become a supplier of various forms of sustainable energy. In 2009, the company expanded its wind energy activities, partly as a result of a successful bid for the shares of Novera Energy plc, which generates energy from methane gas, hydropower and wind. The combination of these two companies has created the largest sustainable energy producer in Great Britain.

4.2.3 Other ESG integration activities

Strategic Asset Allocation

In 2009, we took the first steps towards integrating ESG factors in the strategic asset allocation. Together with a number of leading institutional investors, we are taking part in a project investigating the possible consequences of climate change for our investments. The start of the project involves drawing up a range of scenarios to analyse possible developments in terms of policy, economic development, technology and physical consequences. We will then produce a qualitative and quantitative analysis of the risks and opportunities presented by these scenarios in the various investment categories.

Emerging Market Credits

Emerging market credits include loans and other forms of finance in emerging markets. ESG factors play an important role in this portfolio, for example in project finance in the oil & gas and mining sectors. ESG policy (for example the Equator Principles) and compliance with local and other legislation and regulations weigh heavily in our investment decisions.

Assessment of brokers (Trading & Execution)

The performance of brokers with regard to the integration of ESG in their services (including research and advice) was assessed for the first time in 2009. This was part of the regular evaluation of the brokers with which we work. When discussing the results of our evaluation, we also emphasised to each broker that we set great store by good ESG-related services. The PRI Enhanced Research Portal (ERP) was also launched in 2009. PGGM was actively involved in the transition from the Enhanced Analytics Initiative to the PRI and the development of the ERP. The aim of the ERP is to make broker research in ESG accessible to all PRI participants and to stimulate its use.

4.3. Targeted ESG investments

Targeted ESG investments are one of the ways in which PGGM fulfils its Responsible Investment Policy. These are investments which not only contribute financially to the performance for clients, but which also generate a social return. Targeted ESG investments can be made in all investment categories. The various investment teams are responsible for their selection and are supported by the Responsible Investment department.

In 2009, total commitments amounted to €2,568 million. These involved demarcated mandates. Naturally, other investments in the portfolio also have social relevance, but these are not included in the figures presented in this annual report.

The details below provide an overview of the targeted ESG investments in each department.

4.3.1 Responsible Equity Portfolio

PGGM's aim with the Responsible Equity Portfolio (REP) is to achieve a responsible return, at least equal to the benchmark, by combining fundamental financial analysis with the integration of ESG factors.

2009 was the first full year of investment for REP. A team was formed, and of the allocated €1 billion we invested €800 million in 2009 in eight companies spread across Europe and North America. The REP commitment for 2010 is being increased further to €2 billion.

Part of the REP investment strategy is to secure a position as a top 20 shareholder in each company in the portfolio. That strengthens our role as a shareholder.

Engagement and voting are actively used to achieve a better investment result and social outcome. Geberit is an example of a company which aims to achieve financial results in a sustainable way.

4.3.2. Structured credit

In the case of structured credit investments, PGGM has access to various forms of bank credit risk. PGGM shares in the risk of the underlying loan portfolio. This includes for example loans to companies or infrastructure projects. The credit risk can be divided into various tranches, with each tranche having its own risk and return. We believe it is important that the tranche is robust, so that even if losses are higher than expected, the return will still be relatively good.

PGGM concluded a transaction with Banco Santander in 2009. This was Boadilla II, a follow-up to Boadilla I, which was established in 2008. Through this transaction we share in the credit risk of their European project finance portfolio. One of the unusual features of this transaction is that a large proportion of the underlying loans relate to financing of alternative energy, such as solar and wind power.

Geberit

In the course of 2009, €100 million was invested in Geberit AG, a Swiss producer of domestic water supply and drainage systems. Geberit distinguishes itself from its direct competitors by its strong management, unique product portfolio. Sector approach and strong focus on sustainability. The first three aspects helped ensure that Geberit performed well during the crisis. The focus on sustainability leads to a quest for innovative products such as drainpipes which counter noise nuisance or the dual-flush system. Since it was invented in 1992, the dual-flush system has saved more than twice the domestic waste water use in Germany.

3. 'Commitment' means that an undertaking has been given to invest a certain amount. This amount can be invested in the respective fund immediately or over a certain period.



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4.3.3. Microfinance

Microfinance involves granting very small loans to poor populations of developing countries (mainly in South-East Asia and Latin America). PGGM invests indirectly in these microcredits through specialist fund managers. We are convinced that this type of investment fits in with the objective of investing pension monies responsibly while generating market returns. PGGM thereby helps families and small businesses in the aforementioned countries to have a prospect of decent income.

The sector came under pressure in 2009 due to the financial crisis and criticism concerning the benefit of microcredit. PGGM is convinced that the inflow of institutional capital to the microfinance industry is important to reduce loan costs. The biggest problem is not the interest that foreign investors receive but the

inefficiency in the distribution of the loans. This inefficiency accounts for 60–70% of the final interest rate.

PGGM committed USD 49 million in 2009 to a new Grassroots Capital fund which invests loan capital mainly in start-up microfinance institutions. In this way we hope to have a greater social impact on the industry, because for each euro of new capital it is typically possible to lend between €5 and €10. As the fund invests largely in new regions, many people who were previously unable to borrow can now do so.

4.3.4. Private Equity

In 2007, PGGM, which was then still part of what is now Pensioenfonds Zorg en Welzijn, issued a separate mandate to AlInvest to invest worldwide in clean technology ('cleantech') through private equity. Currently,

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Green drinking water

In 2008, AlInvest invested in Quench USA through the Element Partners fund. Quench USA is the largest independent commercial distributor of drinking water purification systems for small-scale use in the United States. Its system is an environmentally friendly alternative to traditional water coolers. It uses carbon filters and ultraviolet technology to purify the water. The Quench system is connected directly to a water pipe and is a good alternative to the standard five-gallon water coolers which use plastic bottles. It is easier to use, delivers better water quality and eliminates the need to transport heavy water bottles.

Drinking water is one of the fastest-growing beverage markets in the United States. Quench's growth in the years ahead may well come from the rapidly rising demand for drinking water in the United States and from the possible replacement of at least part of the seven million or so five-gallon water coolers currently in use in the US. Moreover, as the largest domestic player in this fragmented market, Quench is well placed for a further consolidation of the market. With an environmentally friendly alternative, Quench has become the market leader in a fast-growing market. The company therefore has bright prospects.

€412 million has been committed to nine specialist funds in America and Europe. These funds have been selected on the basis of an extensive due diligence process involving an analysis of around 100 specialist private equity houses. AlInvest's knowledge and network have been used to select the most experienced managers in the cleantech industry. In composing the portfolio, the aim has been to achieve a balance between funds focused on innovative technologies and funds investing in more developed and proven technologies. A feature common to both categories is that they improve the sustainable and efficient use of natural resources and reduce the impact of energy consumption on the environment. The aim of these investments is to achieve a high return in the medium to long term. Investments were made in 57 companies through these nine funds at the end of 2009. Above is an example of a company from the cleantech mandate in which funds are currently invested.

4.3.5. Infrastructure

The infrastructure portfolio includes three investments in funds which invest exclusively in sustainable energy projects. In 2009, the amount invested in targeted ESG investments rose from 4% to 10% of the infrastructure portfolio. In terms of amounts, that means there has been a rise from €34 million in 2008 to €93 million in 2009. A further €144 million has been committed to infrastructure for sustainable energy projects.

Sustainable energy projects offer an attractive and stable return and are long-term investments. They consequently fit in well with the nature of pension liabilities. One of the three funds is the Dutch Ampère Equity Fund, which invests in sustainable energy projects such as wind farms (on land and at sea), solar energy and biomass plants. PGGM also manages a €100 million interest in the Ampère fund on behalf of its clients. The second fund is from Hg Renewable Power Partners, in which PGGM has also invested €50 million on behalf of one of its clients.

Sustainable energy in Europe

In 2009 we invested, on behalf of one of our clients, in the Fortis Clean Energy Fund, which invests, among other things, in solar energy plants, hydropower plants and wind farms. Because clean energy still depends on government support to be economically feasible, the fund invests mainly in countries with relatively favourable regulations, such as France, Italy, Spain and the United Kingdom. Energy companies in those countries are compelled by their governments to buy sustainably generated energy at a fixed tariff. Solar energy plants tend to be located more in the southern countries, while wind plants, for example, are spread more widely across all the aforementioned countries.

The fund's investments include Vitry, a wind farm in northern France. This comprises six wind turbines with a capacity of 12 MW. Vitry produces around 29,700 MWh per year, enough to supply power to roughly 6,500 households. The farm has been operating since 2006 and has been part of the fund since 2009. France is a good location for wind farms, because it has the second-best wind resources in Europe after the United Kingdom. It also has an annually rising feed-in tariff mechanism for 15 years.

This fund invests mainly in onshore wind farms in Western Europe and in other sustainable energy technologies, such as small-scale hydropower projects. Also in 2009, we acquired a €100 million interest on behalf of one of our clients in the Fortis Clean Energy Fund, which invests in various forms of sustainable energy in Europe.

4.3.6. Real Assets and Insurance

The Real Assets portfolio is focused on investments in forestry and agriculture. We invest mainly in land and in the primary production process. The return is made up of income from production (wood, agricultural commodities) and the increase in value of the underlying assets.

The investments are long-term (more than 10 years). A number of investments in this category are targeted ESG investments: the Climate Change Capital Carbon Fund (€250 million committed, €50 million invested), a sustainable forestry fund in the United States and the GMO Long Horizons Forestry Fund (€152 million committed, €95 million invested).

4.3.7. Strategic portfolio and relationships

The strategic portfolio consists of investments with relatively large interests in companies or funds which have a strategic nature or are focused on co-operation. An example of a relevant ESG investment in this portfolio is the interest in Triodos Bank (6%).

PGGM has invested €212 million on behalf of one of its clients in Albright Capital Management, which makes targeted investments in emerging markets chosen to a large extent on the basis of ESG factors. Albright Capital Management also actively pursues improvements in conduct and local regulations.

PGGM is also a co-owner of Sustainalytics (7%), an international information provider in the field of ESG performances of companies, institutions and countries.

4.4 Outlook for 2010

The integration processes initiated in 2008 will be continued in 2010. The Infrastructure investment category will move into the second phase of the integration process (i.e. implementation). Also in 2010 we will continue to implement the Responsible Investment Policy for Real Estate. In addition, all investment categories will go through the survey phase in 2010, with support from the Responsible Investment department. Finally, targeted ESG investments will be actively sought in all strategies.

Investing in forestry

An investment was made in Conservation Forestry Fund II-BI in 2009. \$100 million was committed to this fund and \$45 million was invested by the end of 2009. Conservation Forestry invests in forestry sites in the United States, combining the assets of institutional investors with those of nature conservation organisations, such as The Nature Conservancy. As well as investing in forestry sites, Conservation Forestry invests in and manages ecosystem rights, such as CO₂ allowances.

The co-operation with nature conservation organisations takes various forms. For example, joint searches are made for forestry investments that are suitable for the portfolio and have priority with regard to nature conservation. Agricultural and forestry sites are also sold to nature conservation organisations with the specific aim of creating nature reserves.

Key performance indicators relating to ESG integration in 2009				Target
	2007**	2008**	2009	2010
Started or completed in Phase I Inventory (as % of total assets under management)*			56%	100%
Started or completed in Phase II Implementation (as % of total assets under management)*			20%	>20%

* Definition of started/completed ESG integration processes: asset classes are included in 'started/completed' if a structured and documented integration process has been started or completed.

** This is a new indicator which was used for the first time in 2009. No figures are available for previous years.

Key performance indicators relating to targeted ESG investments				Target
	2007	2008	2009	2010
Targeted ESG investments (€ million)	1,700	2,400	2,568	4,000
As % of total assets under management	1.9%	3.3%	2.9%	

Note: no targets are applicable for % of total assets under management per se.

5. VOTING



Active and informed voting plays a crucial role in the attainment of good corporate governance. PGGM therefore sees the voting right as one of the most important rights a shareholder has.

We are convinced that the co-determination in companies which gives shareholders a voting right contributes to the creation of shareholder value in the short and long term. We also consider active and informed use of voting rights to be an important part of our role as a responsible investor on behalf of our clients, partly on the basis of the Dutch Corporate Governance Code. PGGM has therefore resolved to vote in all cases on behalf of its clients. PGGM has drawn up the Listed Equity Ownership Policy (LEOP) as the foundation for our voting policy.

PGGM formulated a tailor-made voting policy for the first time in June 2008. This document ('PGGM Investments Global Voting Guidelines') has been assessed twice since that time (for 2009 and 2010) and amended as necessary. These Guidelines can be found on our website. Our Global Voting Guidelines provide as much information as possible on the position PGGM will adopt in votes on a wide range of subjects that may potentially arise on the agenda of shareholders' meetings.

In 2009, PGGM again reported quarterly on its voting activities at shareholders' meetings. Details of our voting at all shareholders' meetings are also published online on a website specially set up for this purpose. If we do not follow management's recommendation, we also provide an explanation of our voting.

5.1 Refinement and transparency of voting policy

We see the exercise of voting rights as an important part of an efficient corporate governance system and believe that high attendance at shareholders' meetings is in the interests of both the shareholders and the company itself. It promotes stability in decision-making, ensures broad support for resolutions and prevents small groups of shareholders from taking control of the meeting due to the absence of other shareholders. PGGM's objective is to vote on all shares of all companies in the portfolio, except in markets in which the exercise of voting rights leads to the shares being blocked (see page 35).

PGGM uses a Voting Focus List. We devote particular attention to meetings of companies on this list and vote on the basis of our own judgement. Inclusion on the Voting Focus List is based on specific criteria.

The 2009 Voting Focus List includes companies which:

- are listed on the Dutch stock exchange or have a clear Dutch background; or
- are included on PGGM's Engagement Focus List; or
- are among the largest listed holdings (>3% of voting rights); or
- are part of the internal real estate portfolios and have been selected by the Listed Real Estate Department; or
- make up one of the 10 largest holdings in euros.

A further criterion was added to the 2010 Voting Focus List, namely whether a company forms part of the Responsible Equity Portfolio (further information on the Responsible Equity Portfolio can be found in section 4.3.1.).

The Voting Focus List comprised a total of 98 listed companies in 2009. When the list was drafted, they represented a total value of more than 20% of all listed investments.

In the case of companies on the Voting Focus List, we vote actively and on a well-informed basis by:

- attending the shareholders' meetings ourselves;
- being represented at the meeting by another institutional investor; or
- voting by proxy.

Our specialist voting service provider ISS-RiskMetrics usually votes at the shareholders' meetings of companies which are not on the Voting Focus List. The votes which it casts are in accordance with our own tailor-made voting policy, the PGGM Global Voting Guidelines.

ISS-RiskMetrics assists us by providing voting recommendations on agenda items at all shareholders' meetings of listed companies in which we invest. It also carries out the voting instructions for shareholders' meetings at which we vote by proxy.

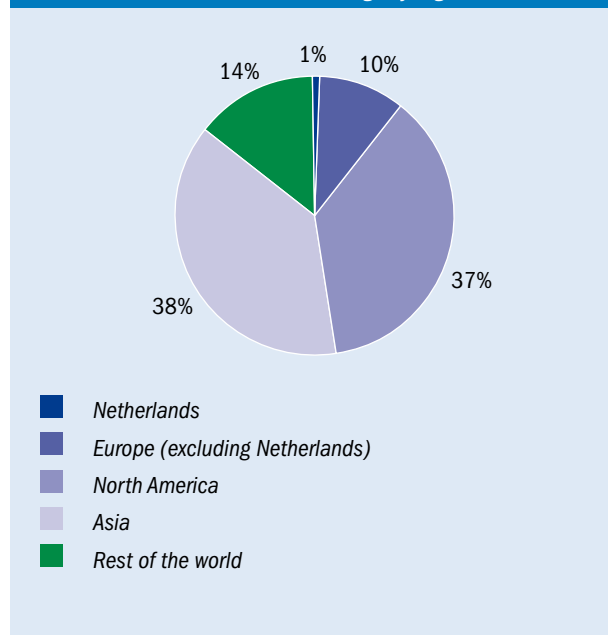
We monitor all shareholders' meetings in advance to identify controversial agenda items and in such cases we vote ourselves. In order to vote on an informed basis, we use the voting recommendations of specialist voting service providers (such as ISS-RiskMetrics, Glass Lewis and Shareholder Support Services) and other sources. We are also informed weekly of agenda items concerning ESG factors. We devote additional attention to such resolutions. In determining our voting choice, we carefully assess the possible impact of these ESG factors on long-term value creation, the continuity of the company's activities and the ESG performances of the company. We then issue a voting instruction ourselves. In principle, we support shareholder resolutions unless:

- the resolution does not accord with our voting policy;
- the resolution is not relevant to the company;
- the executive board sufficiently diminishes the relevance of the resolution, or puts forward other convincing reasons for not supporting it.

Blocking

In some markets, depending on the local customs and/or regulations of the country in question, shares are blocked for a certain period if the investor decides to use his voting right. During this blocking period, shares in respect of which votes have been cast cannot be traded. This blocking has consequences for the investment process and can thus have a major impact on the investment result. For this reason, PGGM has decided as a rule not to vote in blocking markets, except in the case of companies on the Voting Focus List. The European shareholder rights directive (2007/36/EC) came into force in 2009. This directive explicitly states that the blocking of shares (on the exercise of the associated voting right) must be abolished. However, in practice it is clear that a large number of countries in the European Union have not yet abolished the blocking requirement. PGGM will therefore continue to press for the abolition of the blocking requirement both inside and outside the European Union.

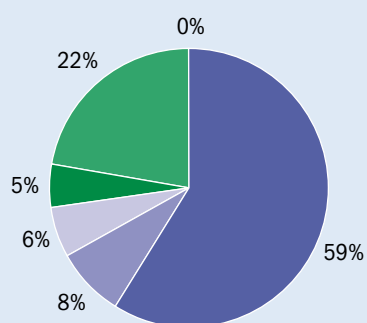
Breakdown of shareholders' meetings by region in 2009



Securities lending

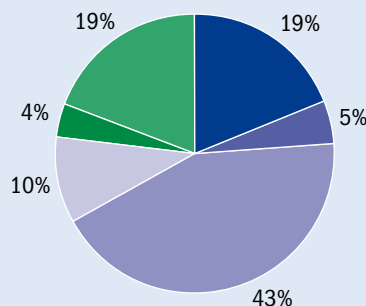
PGGM lends shares (a practice known as securities lending) in order to earn lending fees. Shares are often lent in order to increase the return on shares or to settle share transactions. If we lend shares, all the rights associated with such shares (such as voting and dividend rights) are transferred to the borrowers of the shares. This means that PGGM cannot make use of the rights associated with the shares during the loan period. We are opposed to the lending of shares to third parties who borrow them only in order to vote. We therefore endorse the guidelines of the International Corporate Governance Network (ICGN) aimed at preventing abuse of acquired voting rights. We also specify this in our contracts with our counterparties. Furthermore, we do not lend shares of companies on the Voting Focus List around the time of shareholders' meetings. We also reserve the right at all times to recall the lent shares for reasons we deem appropriate.

Breakdown of management resolutions in 2009 (by category)



- *Anti-takeover devices*
- *Director elections*
- *Capital structure*
- *Remuneration*
- *Mergers and acquisitions*
- *Other items*

Breakdown of shareholder resolutions in 2009 (by category)



- *Remuneration*
- *Corporate governance*
- *Director elections*
- *Health and environment*
- *Social conditions*
- *Other items*

5.2 Implementation of the voting policy

PGGM invests worldwide on behalf of its clients in more than 4,000 listed companies. We therefore vote mainly by proxy. For practical and cost reasons, it is not possible to attend all these meetings. In 2009, proxy votes were cast in principle at all annual general meetings (AGMs) and extraordinary general meetings (EGMs) outside the Netherlands (and if necessary within the Netherlands). Representatives of PGGM personally attended meetings of a number of Dutch listed companies. In a few cases we gave institutional investors authority to speak and vote on our behalf in other countries.

We voted on agenda items covering a large number of different subjects in 2009. Most of these were proposed by the managements of the companies in which we invested (98% of all agenda items). Only in a few cases were the resolutions proposed by shareholders themselves (2% of agenda items).

The 28 Dutch listed companies included in the portfolio in 2009 held a total of 38 AGMs and EGMs in 2009. Of these, PGGM attended, spoke and voted in person at 14 meetings. Votes at the other 24 meetings were cast by proxy. PGGM opts to be represented in person if there are agenda items which we consider to be so important that we find it necessary to explain our views at the meeting. In certain cases we may also require more information on the management's reasons and views.

In 2009, PGGM began sending out written explanations to companies if we voted against the management's recommendation at the shareholder's meeting. In the case of companies on our Voting Focus List, we decided to provide more detailed explanations of our grounds for any dissenting vote. In that way we actively make the management of such companies aware of what we believe to be best practice. Our intention is also to increase the effectiveness of our voting. In 2009, PGGM sent a total of 35 such 'vote against management' letters, and this ultimately resulted in valuable insights and points of contact for a continued dialogue with these companies. In view of the positive initial results, this initiative is being continued in 2010.

The number of meetings at which votes were cast decreased slightly in 2009. This was partly due to a decrease in the number of different companies we invested in, which meant there were also fewer shareholders' meetings at which we could vote.

PGGM voted in favour of the agenda item in 34,825 cases and against in 4,692 cases in 2009. We abstained on 1,302 items.

Aggregate results of voting on management recommendations

	2007	2008	2009
Number of meetings at which votes were cast	2,025	4,792	4,678
Number of agenda items on which votes were cast	18,018	40,618	40,819
Number of votes in favour of management recommendation	15,834	35,610	34,393
Number of votes against management recommendation (including abstentions)	2,184	5,008	6,426

The number of dissenting votes amounted to 11.5% of all the votes we cast (2008: 10%). The number of dissenting votes increased by over 22% in 2009 compared to 2008. This was partly due to a change in the voting policy, as a result of which we looked more closely at the independence of non-executive and supervisory directors. For example, PGGM now votes worldwide against the appointment or reappointment of non-executive and supervisory directors if they have served in that role for longer than 12 years. In line with the Dutch corporate governance code, we believe that periods in office should be limited to a maximum of three terms of four years (i.e. a total of 12 years). In practice, PGGM cast one or more votes against the management's recommendations at 47.7% of all meetings at which votes were cast in 2009. At 52.3% of all meetings we agreed with the management's view and supported them on all agenda items.

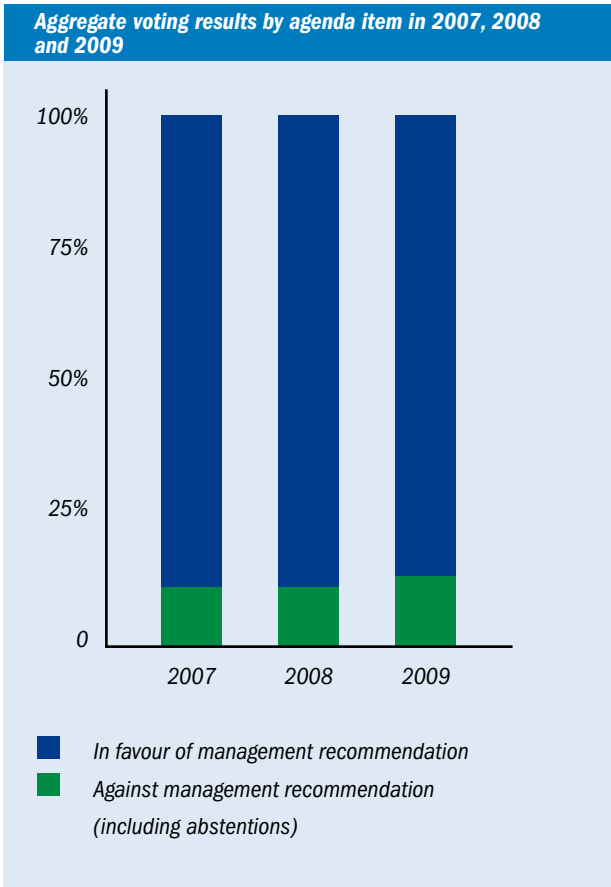
The number of abstentions has also risen strongly compared to 2008. Abstaining is never our preferred course. Unfortunately, in some cases it is the only option which companies offer as an alternative to a dissenting vote. That is often the case, for example, in the appointment of executive directors in the United States, where the so-called plurality voting system is used. Plurality voting means that the executive director with the most votes is elected. Hence it is possible either to vote in favour of a candidate or to abstain. Since in practice there are generally no opposing candidates, all votes in favour go to the same person. Under this system, directors are therefore almost certain to be elected. Abstaining is then the only, albeit ineffective, way to demonstrate dissatisfaction as a shareholder. Although there is increasing use of majority voting, whereby the person is elected only if there are a majority of votes in favour, plurality voting is still common, particularly in smaller businesses. By far the majority of abstentions (94%) were therefore in the North America region. PGGM is actively seeking to promote wider-scale use of majority voting in the United States (for further information see also the 'Corporate governance developments in the United States' case later in this report).

Voting results by ESG theme

	Environmental			Social conditions			Corporate governance		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Number of agenda items	23	79	88	20	66	32	17,975	40,473	40,699
Number of votes in favour of agenda item	8	47	56	5	36	22	15,821	35,796	34,747
Number of votes against agenda item	15	21	30	15	25	10	1,781	3,788	4,652
Number of abstentions	0	11	2	0	5	0	373	889	1,300
Number of votes in favour of management recommendation	15	21	29	15	25	10	15,804	35,564	34,354
Number of votes against management recommendation (including abstentions)	8	58	59	5	41	22	2,171	4,909	6,345

4. When describing a company as 'Dutch' we have applied our own definition in this annual report, as a result of which the following five companies, although having their registered office in the Netherlands, are not considered to be Dutch holding companies: James Hardie Industries, New World Resources, STMicroelectronics, X5 Retail and QiaGen. All these companies have no significant activities in the Netherlands.

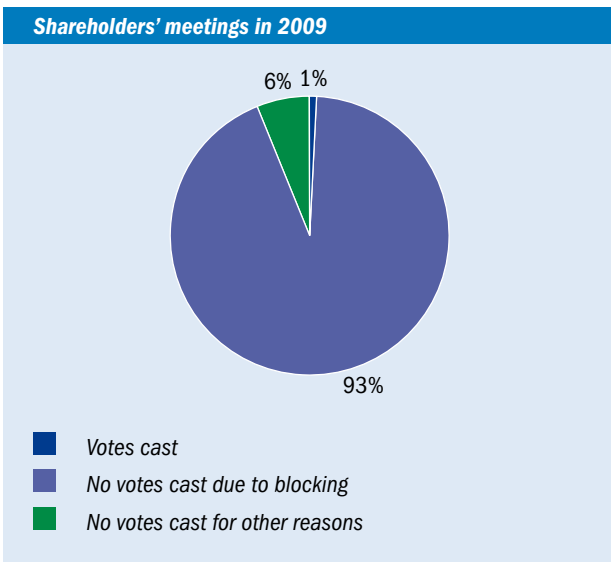
Breakdown of voting behaviour by agenda items in 2009	
Management resolutions	39,925
Shareholder resolutions	894
Total number of agenda items	40,819
Votes in favour of agenda items	34,825
Votes against agenda items	4,692
Abstentions on agenda items	1,302
Total number of agenda items	40,819
Votes on agenda items in line with management recommendation	34,393
Votes on agenda items against management recommendation	6,426
Total number of agenda items	40,819
Votes in favour of shareholder resolutions	613
Votes against shareholder resolutions	272
Abstentions on shareholder resolutions	9
Total number of shareholder resolutions	894



Approving an agenda item is not always tantamount to voting in line with the management’s recommendation. If shareholders themselves place a resolution on the agenda of the shareholders’ meeting, the management’s recommendation is usually to vote against it. We may therefore decide to vote in favour of the shareholder resolution (and hence against the management’s recommendation).

PGGM devotes a great deal of attention to voting on agenda items of an environmental and social nature. The number of agenda items voted on with regard to environmental conditions increased further in 2009. There was nevertheless a dramatic fall (of more than 50%) in the number of agenda items relating to social conditions. The attention devoted to this theme in 2009 possibly suffered due to the crisis in the financial markets. However, PGGM will also continue to develop engagement activities outside shareholders’ meetings with companies which show deficiencies with regard to social conditions.

The voting results in the various categories of agenda items in 2006, 2007, 2008 and 2009 are shown in the following table of voting results by ESG theme.



Of the 5,039 shareholders' meetings at which PGGM could have voted in 2009, votes were ultimately cast at 4,678 meetings. In line with our voting policy, we did not vote in blocking markets in 2009

A total of 317 meetings took place in blocking markets and consequently no votes were cast. Votes were not cast at 44 meetings due to the absence of ballots, incorrectly lent positions or other reasons. These cases therefore involved deficiencies, which we endeavour to keep to a minimum by raising them or continuing to discuss them with all the parties concerned.

Votes were cast at 99% of all annual and extraordinary shareholders' meetings in 2009. The target of voting at more than 95% of meetings was therefore achieved. In the case of companies on the Voting Focus List, PGGM also voted at 99% of all meetings in 2009. The only missed meeting was the shareholder's meeting of the Oil and Natural Gas Company (ONGC) of India. Votes were cast at this meeting by proxy and members of the Responsible Investment department attended the meeting with a view to speaking to the management. However, the intermediary which implements the voting instructions and deals with the admission tickets failed to distinguish between electronic voting and attendance at the meeting. As a result, the intermediary incorrectly decided to remove the voting instruction, which meant that no vote was cast.

For 2009, a calculation method was used which disregards shareholders' meetings in blocking markets when determining the voting figures. After all, in line with our policy we do not vote in such cases.

5.3 Outlook for 2010

A new Voting Focus List has been drawn up for 2010. The list has been expanded to 103 companies (2009: 98 companies). The companies on the 2010 Voting Focus List collectively represent 25% of the total value of the equity portfolio managed by PGGM at the end of 2009. In 2008, this percentage was still only 20%. Prior to the meeting in 2010, PGGM will contact a number of companies on the Voting Focus List which it had previously written to in connection with a vote against the management's recommendation. The extensive reporting on our website and in the quarterly reports on Voting and Engagement will be maintained in 2010.

Shareholders and animal welfare

American companies in the pharmaceutical and food sectors in particular regularly have to deal with shareholder resolutions concerning animal welfare. Individuals and animal protection organisations call on the company to produce more policy and conduct more activities that are deemed beneficial to animals. In the case of pharmaceutical companies, this particularly concerns the use of animal testing. Managements of US companies almost always recommend voting against shareholder resolutions on animal welfare. PGGM assesses each resolution in this area on its merits, so our voting behaviour may vary.

At a shareholders' meeting of Yum! Brands Inc. (the parent company of the Kentucky Fried Chicken food chain among others), an animal protection organisation called for the implementation of animal welfare recommendations drawn up in 2005 by a special committee of Kentucky Fried Chicken. The recommendations were welcomed on paper, but investigations showed that suppliers were often not acting in accordance with the rules. Some members of the animal welfare committee have since resigned because they believed progress was much too slow or because they had no confidence in the management's sincerity. Since PGGM believes it is important to comply with these recommendations, it voted in favour of this resolution on behalf of its clients.

Another shareholder resolution concerned Covance, a company which provides services for the development of medicines. Covance also has animal testing facilities. An animal rights organisation called on Covance to report annually on the way in which it solves, corrects and prevents breaches of US legislation and regulations on animal welfare. Covance's management took the view that the animal rights organisation was pursuing a political agenda against animal testing through this resolution. An animal activist infiltrated Covance under false pretences and reported alleged abuse, the truth of which is contested by the management. PGGM believes that the use of animal testing is unavoidable in the development of new medicines, but that all parties concerned (pharmaceutical companies and service providers) should treat the animals well and as far as possible develop new techniques in order to limit the number of animals involved. Our own research shows that Covance meets many strict requirements of US and international authorities and reports conscientiously. PGGM therefore voted against this shareholder resolution on behalf of its clients.

Human rights and voting

Once again this year the agendas of US shareholders' meetings included a number of shareholder resolutions in the field of human rights. Many of the resolutions we supported concerned requests to companies to draw up specific human rights policies or codes of conduct based on ILO guidelines. At Chevron, for example, we supported a resolution calling for the human rights policy to be strengthened and firmly embedded, particularly since we had made similar calls in our dialogue with this company. The company was also asked various times to establish a committee to review human rights issues. Many resolutions also called for greater diversity or for more women in the management of the company and attention was drawn to the need to combat discrimination based on sexual orientation. Finally, various Internet companies, including Google and Microsoft, were called on to develop policy with regard to freedom of access to the Internet.

Voting on climate change

In the United States and Canada in particular, shareholder resolutions are often submitted on the subject of climate change. These usually urge companies to devote more attention to climate change in their operational management and to report more clearly on the subject. Several dozen such resolutions were submitted in 2009. A large number of them are never put to a vote, however, because companies take various steps in advance of the meeting to prevent that from happening. For example, a company may try to convince the US stock-market regulator (the Securities and Exchange Commission, or SEC) that the resolution does not fulfil the criteria for shareholder resolutions. An example of such a criterion is that the resolution must not concern a subject which forms part of regular business activities. It may also happen that a shareholder resolution is ultimately left off the agenda because the company meets the wishes of the submitting shareholder. If the company successfully convinces the shareholder of its good intentions, the submitter will often withdraw the resolution.

The majority of shareholder resolutions, however, are put to a vote. One such resolution received a majority of votes for the first time in 2009. That concerned Idacorp, an energy company from Idaho. The resolution called on Idacorp to set quantitative targets for the reduction of greenhouse gas emissions. In view of the mix of sources Idacorp uses to generate energy, with coal playing a major role (alongside hydropower), such targets are of great importance. Coal-fired power generation is very CO₂-intensive. Moreover, quantitative targets for reductions of greenhouse gases (of which CO₂ – carbon dioxide – is the most important) are now commonplace in the energy sector. Many of Idacorp's sector counterparts have been setting such targets for a number of years. PGGM voted in favour of this resolution on behalf of its clients. Idacorp accordingly set quantitative targets. The company also took the first steps towards the construction of a wind farm.



Key performance indicators relating to voting				Target
	2007	2008	2009	2010
Number of shareholders' meetings (AGMs and EGMs) at which votes were cast	2,025	4,792	4,678	
Number of votes cast	18,018	40,618	40,819	
Number of AGMs and EGMs at which votes were cast as % of total number of AGMs and EGMs	41%	92%	99% ^[1]	≥95% ^[1]
Number of AGMs and EGMs at which votes were cast as % of Voting Focus List	70%	99%	99%	≥99%

[1] For 2009 and 2010, the percentage of AGMs and EGMs at which votes were cast and the target for non-voting in blocking markets outside the Voting Focus List were no longer included. After all, the policy in such cases is not to vote. In previous years, such meetings in blocking markets were included in the calculation of the percentage of meetings at which votes were cast.

Note: no targets are applicable for some of these components. For example, number of votes cast is not a target per se.

6. DIALOGUE

A group of business professionals, including men and women in suits, are seated around a conference table in a meeting room. They are looking towards the right side of the frame. The room has large windows in the background, and several microphones are visible on the table. The overall atmosphere is professional and collaborative.

As an asset manager for major worldwide investors, we see it as our responsibility to talk to companies and markets about their policy and activities. We refer to this as engagement.

We define engagement as the overall activities carried out in order to establish a dialogue with companies and markets. We use the term dialogue to emphasise the bilateral nature of the contact we seek. The aim of the dialogue is to achieve concrete improvements in environmental, social and corporate governance matters on the basis of the view that this ultimately contributes to an improvement in the financial and/or social performance of our investments.

6.1 Engagement policy and approach

The engagement policy is part of the Listed Equity Ownership Policy (LEOP). Through our engagement activities we seek to contribute to a good return on investments and give expression to our identity and that of our clients.

For our engagement programme based on our identity and the influence we expect to be able to exert, we have chosen four themes:

- corporate governance;
- human rights;
- climate change;
- health.

We continued our own engagement activities in 2009. The chosen themes were developed and spearheads were formulated. As a result, we initiated more of our own engagement processes in 2009 than in 2008. Our engagement processes with companies and/or market operators start with an engagement plan, in which we describe the objectives we are pursuing, the results we aim to achieve in the company and whether we are seeking co-operation with other parties for the fuller implementation of the engagement process.

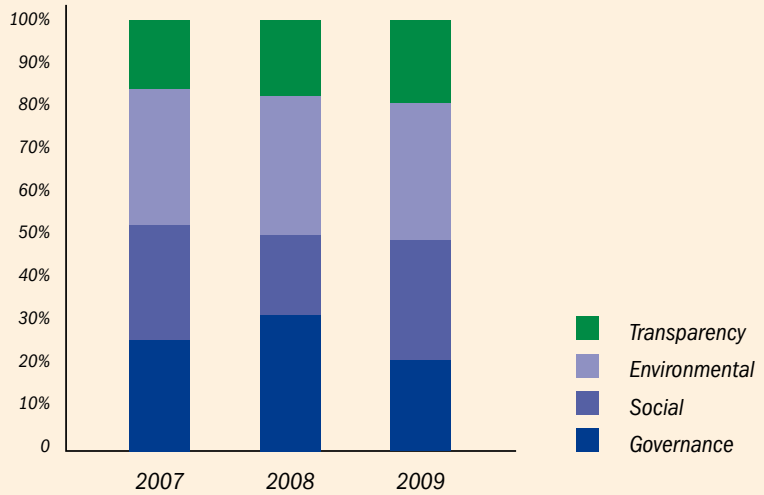
With regard to both voting and engagement, it is important to bear in mind that on average we invest in only 0.13% of a company's shares in issue. Co-operation with others and/or long-term engagement processes are therefore required in order to achieve concrete success.

Engagement Focus List

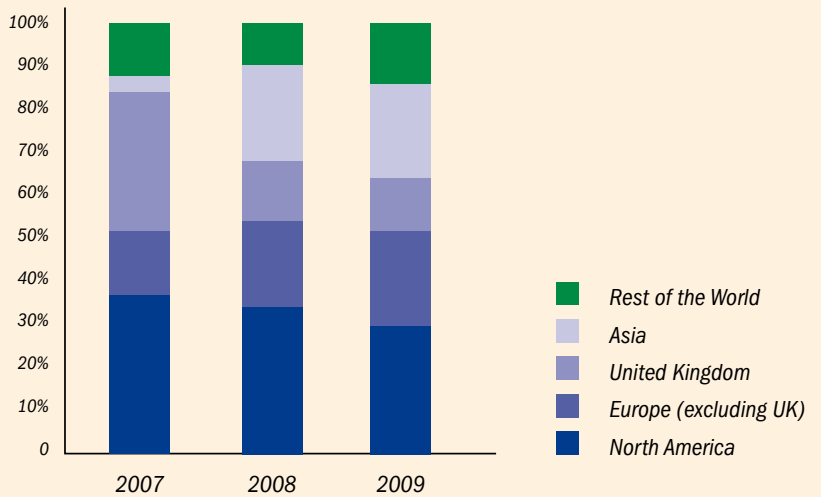
An Engagement Focus List has been compiled on the basis of an extensive analysis of the companies in the portfolio. It has been compiled from various sources, such as external data suppliers, brokers, other investors, shareholders' meetings and our own research. This list contains companies to which we have assigned priority in order to enter into a dialogue ourselves or in close co-operation with other investors. The Engagement Focus List for 2009 comprised a total of 34 companies.

We also monitored the latest events closely. Particular circumstances may constitute grounds for a more ad hoc engagement process with a view to addressing issues in a company or market participant. We conducted a dialogue with a total of 48 companies during the year, including 22 on the Engagement Focus List.

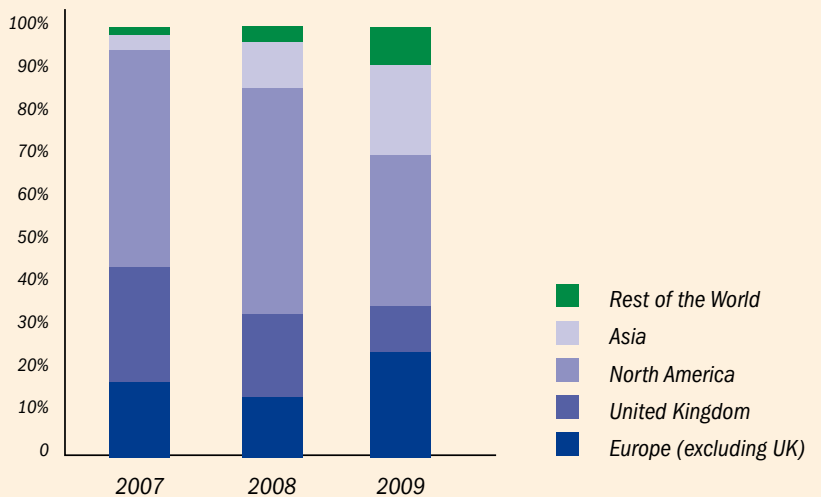
Engagement projects per theme 2007, 2008 en 2009



Geographic spread of engagement projects in 2007, 2008 and 2009



Geographic spread of engagement milestones in 2007, 2008 and 2009



Engagement activities conducted by F&C

To supplement our own activities, the British asset manager F&C has conducted a worldwide dialogue since 2001 on behalf of PGGM with a large number of companies in our portfolio. Whereas PGGM selects companies for engagement on the basis of its spearheads, F&C has a more top-down sector approach. The large team of sector specialists is therefore able to place a wide range of subjects on the agendas of a large number of companies. F&C's engagement activities focused on nine main themes in 2009:

- corporate governance;
- business ethics;
- responsible enterprise and reporting;
- environmental management;
- ecosystems;
- climate change;
- human rights;
- health;
- labour rights.

We work closely with F&C in order to prioritise the engagement processes which F&C implements on behalf of PGGM. In addition to the so-called overlay engagement activities, F&C devotes a great deal of attention to our spearheads in its dialogue with companies to which we assign priority. Regular consultation takes place on our expectations and objectives for these engagement processes. F&C issues detailed progress reports each quarter.

In 2009, F&C conducted an intensive dialogue with 495 companies worldwide, partly on behalf of PGGM. In this context, 1,528 different engagement projects were conducted. With each company, F&C can bring up various subjects as part of the engagement process. In our investment portfolio, the companies with which PGGM and F&C have conducted a dialogue have a value of €17 billion, equivalent to almost 48% of the total assets invested in equities (including listed real estate companies).

The table below provides an overview of the engagement activities conducted by F&C on behalf of PGGM in 2009.

Overview of F&C engagement projects and milestones in 2007, 2008, 2009							
Subject	2007		2008		2009		Examples of milestones achieved in 2009
	projects	milestones	projects	milestones	projects	milestones	
Corporate governance	257	100	289	102	313	119	Improved relationship between pay and performance by giving shareholders advisory vote on remuneration
Business ethics	171	17	182	5	157	9	Participation in Extractive Industries Transparency Initiative (EITI), to promote openness on payments to public sector bodies
Responsible enterprise and reporting	254	30	229	34	267	56	Signing of the UN Global Compact and integration of the 10 principles in the field of human rights, working conditions, environmental protection and combating corruption
Environmental management	121	6	130	11	149	7	Introduction of a company-wide environmental management system focused on climate change, biodiversity, raw materials and relations with stakeholders
Ecosystems	212	12	93	10	120	11	Support for the Global Compact CEO Water Mandate, whereby companies give a commitment to control water shortages and sanitary risks through improved water management
Climate change	214	16	250	19	262	79	Signing of the Copenhagen Communiqué, calling on world leaders to conclude an ambitious and effective climate agreement in December 2009 in Copenhagen.
Human rights	451	33	205	48	206	15	Participation in an initiative by the textile industry to cease cotton purchases from Uzbekistan due to reports of child labour and forced labour
Health	19	0	50	6	54	8	Joint venture in the pharmaceutical industry to develop new HIV-AIDS drugs and improve access to such drugs
Total	1699	214	1428	235	1528	304	

Collaboration with other institutional investors

In our own engagement processes we often work closely with other large institutional investors, for example in order to lend more weight to our message. However, many countries, particularly in the EU, have legislation and regulations which regulate and approve co-operation among institutional investors, particularly by means of 'acting in concert' rules. Although this subject is highly complex and far from crystallised, we believe that all our co-operation arrangements comply with the current rules. Through our co-operation arrangements, PGGM has also called for greater clarity on the interpretation of the 'acting in concert' rules, including from the AFM and the FSA.

In order to strengthen our own engagement activities we participate actively in various associations. A good example is our involvement in the PRI, where we are represented both on the board and on various committees. We are also active on the board and various committees of Eumedion, the Dutch institutional investors' organisation which argues in favour of better corporate governance in the Netherlands. In addition, we are active members of networks in which investors co-operate in the field of responsible investment and engagement, such as the International Corporate Governance Network (ICGN), the Council of Institutional Investors (CII), the Asian Corporate Governance Association (ACGA) and the Institutional Investors Group on Climate Change (IIGCC). These organisations are described in greater detail in Appendix III.

Regulatory engagement

The co-operation within networks is often also used to influence relevant legislation and regulations so as to bring about improvements in environmental, social and corporate governance areas. In this context, a dialogue is sought with market participants such as regulators and policymakers. We call this regulatory engagement. We implemented seven such engagement processes in 2009.

Best practice engagement

Efficient markets and financial systems are of great importance to PGGM as a universal investor in equities in all markets and sectors. We therefore also undertake or support initiatives aimed at approaching wider groups of companies in various sectors and/or on certain subjects, for example in order to encourage a particular best practice, possibly involving the endorsement of a voluntary standard or code such as the UN Global Compact. We refer to this as best practice engagement. We undertook 11 such processes in 2009 reaching 8,700 companies.

In this section we will provide a more detailed account of our engagement activities on each theme. In some cases, we adopt a restrained approach in our external communication on engagement if that is in the interests of the dialogue. Confidentiality is an important principle in our dialogue with companies. We nevertheless practise openness where possible.

6.2 Corporate governance

With regard to the subject of corporate governance, we focused on the following spearheads in 2009:

- remuneration policy;
- improvement of corporate governance guidelines;
- exercise of voting rights.

PGGM sees remuneration as an important integral part of corporate governance. It is a subject that has received our constant attention and in which our Dutch descent comes strongly to the front. PGGM applies various assessment criteria, including a healthy balance between the interests of all the parties involved in the company (such as shareholders and employees). The rights of shareholders with regard to directors' pay vary widely in the various markets. We apply the principle that specifying and implementing a proper remuneration policy is primarily a duty of the supervisory board (non-executive directors).

With regard to the improvement of corporate governance guidelines, we travelled to Japan and Taiwan with the Asian Corporate Governance Association (ACGA) during the year. In Tokyo, the delegation took part in consultations with, among others, the Ministry of Economics, Trade and Industry, the Tokyo Stock Exchange and various Japanese institutional investors. In Taipei, the discussion partners included the Taiwan Stock Exchange, the stock exchange regulator and the Taiwan Corporate Governance Association. The first successes were recorded shortly after the ACGA visits. During the

All votes count

Listed companies often do not count all the votes cast at a shareholders' meeting (AGM), relying simply on voting by acclamation. Voting by acclamation means that the chairman of the AGM asks the shareholders present to raise their hand or applaud if they are voting in favour of an agenda item. It is then up to the chairman to ascertain whether an agenda item has been adopted. In our opinion, this breaches one of the main principles of corporate governance, namely that each share confers the right to one vote (one share – one vote). If hands are raised, each shareholder has only one vote in total rather than one vote per share. In addition, most votes are cast prior to the meeting, because many shareholders, particularly those based abroad, vote by proxy. It is often unclear how the chairman takes account of these votes in a vote by acclamation. PGGM therefore calls for voting by application to be discontinued. PGGM advocates counting all votes, both those cast in the meeting and proxy votes ('voting by poll'), with the result being announced immediately by the company. PGGM made repeated calls for 'voting by poll' in many markets and in various companies in 2009.

In Asia, PGGM initiated an engagement project in which we urged around 10 markets to introduce a compulsory requirement to count all votes cast and publish the result as soon as possible after the vote. We did so by writing to legislators, regulators and stock exchanges in Australia, China, Hong Kong, India, Japan, Malaysia, the Philippines, Singapore, South Korea and Taiwan. This project is endorsed by various foreign and domestic institutional investors. We are joining with these institutional investors to enter into a dialogue in each country as a follow-up to the engagement process. We are convinced that this project can contribute to better corporate governance and accountability through the entire voting chain, from the voting shareholder through to the company and all other parties involved in the voting process. The project has now been reproduced in other countries, including Europe. In the United Kingdom, letters will be sent to all companies in the FTSE 100 index which still vote by acclamation and at the beginning of 2010, PGGM will write to all Dutch AEX-listed companies which still do not practise voting by poll.

round table conference at the Taiwan Stock Exchange (TWSE), it was explained why the holding of shareholders' meetings on a limited number of days was problematic for institutional investors. Most of the 1600 or so TWSE-listed companies held their AGMs on the same day in 2008. Well-informed voting takes time and it is practically impossible to cast informed votes simultaneously for so many AGMs. The first Taiwanese listed companies have now said that this year they will not cluster their AGMs with those of other companies. In the 'Corporate governance developments in the US' case, we provide further information on how PGGM has endeavoured to improve corporate governance guidelines in the United States.

This year we spoke to Acer and Taiwan Semiconductor Manufacturing Company (TSMC) about the exercise of voting rights. Our discussions with these companies focused particularly on voting procedures, because in Taiwan shareholders mostly vote by acclamation. Each shareholder consequently has only one vote, regardless of how many shares he has. For us, however, a key principle of good corporate governance is that the exercise of voting rights must take account of the number of shares. We therefore called on Acer and TSMC to put all agenda items to the vote at their shareholders' meetings with effect from the next meeting in 2010. We asked them to count and publish the number of votes

cast both by proxy and at the meeting. We also requested these companies to modernise the voting process and replace ballot paper voting with an efficient electronic voting procedure. Both Acer and TSMC said they would investigate whether it was possible to fulfil our request, although this would depend on local legislation and regulations and practical feasibility. We will advise and support both companies if necessary. This development may set a precedent for other Taiwanese companies. We discuss the exercise of voting rights in greater detail in the 'All votes count' case.

In 2009, PGGM played an active part in producing the revised version of the principles of the International Corporate Governance Network. This 'Statement on Global Corporate Governance Principles: Revised' describes the corporate governance standards which all companies must strive for according to the ICGN. PGGM bases its corporate governance and voting policy partly on these revised ICGN principles. A delegate of the Responsible Investment department sat on behalf of PGGM on the ICGN Global Corporate Governance Principles Committee responsible for drawing up these principles.

Through its engagement activities and involvement in international initiatives, F&C worked to improve the standards for good enterprise policy worldwide. The dialogue was entered into on the basis of specific guidelines which F&C has drawn up for each region or country. This year, particular attention was devoted to corporate governance in Russia, Australia, Asia and the emerging markets. There was an additional focus on the banking sector, partly due to the financial crisis.

Following the revision of the corporate governance guidelines of the Australian Stock Exchange (ASX), F&C spoke with a number of Australian companies, partly on behalf of PGGM. The subjects covered were the remuneration policy and the independence of supervisory directors.

Of all the shareholders' meetings in 2009, the most notable included those of Fortis and VastNed Retail. These are detailed in the two cases below.

Recurrent retention bonus at VastNed Retail

This year we devoted further attention to VastNed Retail. Once again there was a matter relating to remuneration policy on the agenda for VastNed Retail's annual shareholders' meeting. It concerned a resolution to grant an exceptional bonus to members of the executive board. This bonus was proposed to thank the directors of VastNed Retail for their exceptional efforts during the (ultimately unsuccessful) takeover bid in 2008. The bonus also served as a means for the company to retain directors. The inclusion of such a resolution on the agenda was remarkable because the majority of the shareholder's meeting, including PGGM, had already rejected the retention aspect of part of the remuneration policy in the previous year. Despite pressure from shareholders, VastNed Retail did not at that time repair the consequences of the voted-down pay resolution by means of an extraordinary meeting of shareholders. The renewed bonus proposal prompted PGGM to withhold discharge from the supervisory board, since the supervisory board is responsible for the implementation of the remuneration policy. Ultimately, the meeting did not grant discharge to the supervisory board. As a result, VastNed Retail did this time convene an extraordinary meeting of shareholders with the intention of obtaining discharge. The supervisory board even threatened to resign by linking the issue of trust to the non-obtaining of discharge, whereas PGGM was only linking the withholding of discharge to the exceptional retention-based bonus. At the extraordinary general meeting that ensued six weeks later, the chairman of the supervisory board stated that from then on he would honour the wishes of the shareholders with regard to remuneration. He also promised not to pay any further retention bonuses without the approval of the shareholders' meeting. After receiving this commitment, PGGM voted in favour of the discharge of the supervisory board and the meeting adopted the resolution.

The remnants of Fortis

The 2008 Annual Responsible Investment Report devotes detailed attention to the downfall of Fortis. Almost all that remained of the listed Fortis holding company in 2009 were insurance activities. In 2008, the Brussels Court of Appeal ruled that the shareholders of Fortis still had a right to express their views on the break-up of Fortis. The Belgian government's planned sale of the Belgian businesses to BNP Paribas was consequently frozen for 65 days.

In Brussels and Utrecht, the shareholders voted on the Fortis transactions at the beginning of February 2009. The Fortis shareholder meetings were characterised by a multitude of weighty agenda items and a charged atmosphere. In Brussels, the shareholders voted on three transactions, namely the agreement with the Dutch government, the agreement with the Belgian government and the Belgian government's sale of a large part of the businesses to BNP Paribas. PGGM voted in favour of the first transaction, because the Dutch government's rescue of Fortis Bank Nederland in October 2008 had taken place under reasonable conditions. With regard to the second transaction, PGGM believed that insufficient information was available to make a reasonable assessment. PGGM therefore abstained on this agenda item. Since the majority of Fortis shareholders voted against this transaction, the third transaction was not put to a vote. The agenda for the shareholders' meeting in Utrecht included an amendment to the articles of association to provide an indemnity for executive directors. PGGM believed that due to its retroactive effect the proposed indemnity was too far-reaching, and it therefore intended to vote against this resolution. Ultimately, however, the resolution was not put to a vote, because the quorum required for an amendment to the articles of association was not attained.

In April, we attended two Fortis shareholders' meetings. In Ghent and Utrecht we took part in discussions with the executive board, asked questions and explained the grounds for our voting, which we had every reason to do given our intention to vote against a number of important agenda items. We voted against the financial statements, the discharge of the executive board and an amendment to the articles of association. For many shareholders, such discharge and its inclusion on the agenda was not open to discussion. However, in Belgium it is compulsory to include on the agenda the discharge of all the executive and non-executive directors, and these directors sit on a single board at Fortis SA/NV. On the proposal of one of the shareholders present, it was decided not to vote for the entire executive board at once, but to vote separately for each individual executive director. The meeting voted by a large majority against such individual discharges. In the Netherlands too, the meeting voted against a discharge of the members of the executive board of Fortis NV. We also called on the management to investigate whether the company could hold previous and/or current executive directors of Fortis liable for the current situation. The report on this investigation would be published at the next shareholders' meeting. The amendment to the articles of association to provide an indemnity for executive directors was again placed on the agenda for the Dutch shareholder's meeting of Fortis. This proposed indemnity had retroactive effect to 10 October 2008 and therefore also covered the period in which the various governments saved Fortis from ruin. We considered this far-reaching indemnity for current or former executive directors undesirable and therefore voted against this agenda item.

Because Fortis still has a dual structure with Belgian and Dutch companies, the shareholders were able once again to attend two extraordinary shareholders' meetings on 18 September. This time there was just one agenda item, the appointment of a new Chief Executive Officer (CEO) to succeed Mr De Boeck, who had been appointed in December 2008. On behalf of its clients, PGGM voted in favour of appointing Mr De Smet as CEO of Fortis.

Overall, 2009 was another eventful year for Fortis and its shareholders. PGGM is continuing to urge Fortis to make radical changes to both its strategy and structure now that it is a company which only has insurance activities. In our view it is not appropriate to maintain a dual structure with head offices in both Brussels and Utrecht.

Corporate governance improvements in the United States

2009 was an important year for the improvement of shareholder rights in the United States. Under pressure from the economic crisis, the US Government realised that financial reform was badly needed. Numerous bills saw the light of day, some of which came into effect in 2009, with others expected to follow in 2010. All the bills provide for a restoration of the balance between the rights of shareholders and the company, while strengthening the sense of responsibility among executive directors.

PGGM also played its part in the framing of regulations and legislation that had been so long called for by investors. In February 2009, PGGM joined with other institutional investors in sending a letter to the recently inaugurated President Obama with a wish list of necessary reforms to raise the standard of corporate governance in the United States.

The core elements of our letter were as follows:

- Access to the proxy, in other words shareholders' right to influence the nomination of candidates for appointment as executive directors of the company;
- Majority voting: the requirement that nominated directors must be appointed by a majority of votes;
- Separation of the roles of chairman and chief executive officer in order to guarantee independent supervision;
- Say on pay, shareholders' right to cast an advisory vote on the directors' remuneration package;
- Abolition of 'uninstructed broker votes' so that US brokers can no longer vote in accordance with their own views on agenda items at shareholders' meetings relating to executive board appointments on the basis of shares held by clients for which no specific instructions have been issued; and
- Development of corporate governance best practices for the US, with an accompanying 'comply or explain regime'.

Almost all the above subjects were incorporated to a greater or lesser extent in the various bills. The process was started by Senator Schumer in May 2009 with his 'Shareholder Bill of Rights Act'. A second important development was the public consultation initiated by the SEC in the spring of 2009 with the launch of a 'proxy access' proposal, which drew over 500 responses. The SEC also introduced considerably tighter rules on 'proxy disclosure', which come into effect on 28 February 2010, i.e. before the start of the shareholder season. In July 2009, the SEC approved the New York Stock Exchange's amended rules on broker votes. 'Uninstructed broker votes' have accordingly been abolished from 1 January 2010.

US Treasury Secretary Timothy Geithner also reacted to the rampant problem of directors' remuneration and the associated bonuses with his bill for an 'Investor Protection Act of 2009'. The bill gives shareholders an advisory vote on the remuneration report which US listed companies are required to present to the shareholder's meeting each year. In addition, redundancy schemes in the context of a merger or acquisition must be submitted separately to shareholders for a non-binding vote.

Finally, the US Senate Banking Committee Chairman, Senator Dodd, presented a bill running to over 1,000 pages entitled 'Restoring American Financial Stability Act of 2009' on 10 November, underscoring almost all the aforementioned elements of the letter to President Obama.

The legislative process in the United States is such that the various Bills of the House of Representatives and the Senate must be merged, after which the US President must sign them into law. SEC regulations are enacted on an administrative level and therefore come into force on the date specified by the SEC itself.

It will be necessary to wait and see what precise form the legislation takes, but it is clear that shareholders' rights in the United States are about to take an enormous leap forward.



6.3 Human rights

In developing this theme we devoted particular attention to the following spearheads:

- companies involved in violations of human rights (including labour rights);
- companies operating in countries with repressive regimes, focusing specifically on companies operating in Burma (Myanmar) and/or Sudan.

In 2009, there were a total of 17 companies on the Engagement Focus List due to human rights. Engagement on this theme usually involves long-term processes. Establishing relationships with the right people in companies takes a lot of time and attention. Cultural differences and the sensitivity of the subject play an important role. We therefore invest a great deal of time in building up relationships, with the major result that we made good progress during the year in starting up a dialogue with various companies.

This year we travelled again to India to follow up the ongoing dialogue and initiate new engagement processes. In Delhi, we spoke to a number of companies about their activities in Burma (Myanmar) and Sudan and asked how they controlled the risks resulting from their activities in those countries. In Mumbai, we spoke to various companies experiencing problems and local protests in their activities in the Indian state of Orissa. We urged these companies to pursue constructive solutions to this situation and to continue to investigate potential for co-operation.

We also achieved further progress in the dialogue with companies operating in Sudan, as part of the engagement processes of the Sudan Engagement Group (<http://www.unpri.org/collaborations>). This was helped by positive co-operation with the UN Global Compact, including through the 'Investing in Conflict-Affected Countries' working group (see box). The Sudan Engagement Group was set up because it proved very difficult to achieve concrete results by means of engagement through individual shareholders. The group does not aim to have companies withdraw from Sudan, but calls on them to take responsibility and actively help drive down human rights violations in the region.

We also entered into discussions with Veolia and Alstom. Both companies are involved in the construction and ultimately the operation of a controversial tram line in Jerusalem. The companies have been summoned to appear in court in France due to their involvement in this project. Association France Palestine Solidarité is demanding the dissolution of the contracts which Alstom and Veolia have entered into for the high-speed tram project. The case has been declared admissible and will be heard by the court of appeal in Nanterre. The judgement could have a major impact on these companies' activities in the project. We will therefore follow this case closely and take account of the results in our engagement with these companies.

In addition to these engagement processes focused on individual companies, we took various initiatives during the year to talk to wider groups of companies in a particular market or about a particular 'best practice'. For example, we sought contact with all companies in the portfolio that are developing activities in Burma (Myanmar) and/or Sudan (see box). We also joined with other major institutional investors in calling on companies endorsing the Global Compact principles to publish the mandatory reports on the implementation of these principles. This proved successful; of the 105 companies that had reneged on this obligation, 46 responded positively to this request.

F&C devoted particular attention during the year to the theme of employment conditions. They urged companies in various regions to draw up a specific suppliers' code in line with ILO guidelines, to deal constructively with any breaches emerging from audits and particularly to co-operate within or outside the sector. F&C spoke, for example, to the British supermarket chain Tesco on upholding fundamental labour rights in the chain, with a particular focus on the pay of migrant workers in the meat processing industry. F&C also entered into a dialogue with tyre manufacturer Bridgestone concerning allegations of child labour in its rubber plantations.

If the dialogue with a company on the Engagement Focus List on the subject of human rights does not ultimately produce the desired results, a decision can be taken to exclude the company from the investment portfolio. In specific serious cases, and in the event of a manifestly negative response from a company, short-term exclusion is also possible. For further information on the relationship between engagement and exclusion, see section 8: Exclusions as the absolute bottom line.

Focus on Myanmar and Sudan

The presence of companies in Burma (Myanmar) and Sudan has long been an important focal point of our engagement programme in the field of human rights. We initially focused on a small number of companies presenting the greatest risks, for example because they operate in high-risk sectors such as the oil and gas industry.

In order to raise awareness among a wider group of companies of the risks we see in their presence in Myanmar and/or Sudan, we wrote to these companies in the portfolio during the year. We are not asking them to leave these countries, because we believe that is ultimately not the most constructive solution.

As an asset manager, however, we do see major risks in developing activities in these countries. We are therefore asking the companies to state how the directors assess the risks, for example in the areas of human rights and safety, and what measures they take to limit these risks as far as possible. We also believe that their presence in such countries gives rise to additional responsibilities. We have therefore asked these companies to provide information on their contribution to the Collaborative Peace Agreement (in Sudan), their socioeconomic activities and how they use their influence to bring abuse to the attention of the local authorities.

We are convinced that entering into a dialogue creates a broader risk awareness among these companies. We want to urge them to discharge their responsibilities through policy and concrete actions.

Investing in conflict zones

We were actively involved in the 'Responsible Investment in Conflict-Affected Countries' working group. This was established by the UN Global Compact and brings together companies, investors and representatives of the civil society. The working group met this year in Istanbul and New York to agree a concrete set of guiding principles for companies developing activities in conflict or post-conflict countries. These principles will give companies guidance on reducing the negative impact of their activities and making a positive contribution to sustainable peace and development in conflict zones.

The provisional guidelines will be assessed in practice at the beginning of next year at a meeting with companies, investors and social organisations in Sudan. The final version will be presented in June at the Global Compact's CEO Forum, where directors will be asked to commit to these guidelines.

We see our participation in this working group as a complement to our existing engagement activities. The discussions in the working group fit in well with the ongoing engagement processes with companies operating in Burma (Myanmar), Sudan and other conflict zones. We have also noticed that some companies find it easier to discuss certain difficult subjects under the umbrella of the UN Global Compact. This project increases the likelihood of successful dialogue in such cases.

6.4 Climate change

With regard to climate change, we devoted attention to the following spearheads in our dialogue with companies:

- strategic opportunities and threats of climate change;
- transparency on greenhouse gas emissions.

As part of the Carbon Disclosure Project, we called on companies during the year to publish information on their greenhouse gas emissions. We also urged companies to make adequate preparations for the opportunities and threats of climate change (for example companies operating in the oil industry). We are seeing major international oil companies incurring greater climate risks by concentrating increasingly on oil resources that are difficult to extract and environmentally unfriendly, such as deposits in tar sands.

With regard to engagement with legislators, in 2009 we played an active part in a call by a large group of institutional investors for a strong climate treaty in Copenhagen (see the 'Our efforts to make Copenhagen a success' box).

With Copenhagen in mind, F&C devoted a great deal of attention to climate change during the year. Like PGGM, F&C is closely involved in the IIGCC. F&C is also one of the founders of the Corporate Leaders' Group on Climate Change. In the run up to Copenhagen, F&C urged companies in the G20 countries to play an active role at the negotiating table. Attention was also devoted to the consequences of climate change in the insurance sector and the automotive industry.

Our efforts to make Copenhagen a success

Following the call in 2008, in 2009 almost 200 institutional investors signed a joint statement calling on the world leaders to enter into binding climate agreements in Copenhagen. A strong successor to the Kyoto Protocol after 2012 is urgently needed to secure investments in emissions reduction and climate-friendly projects. PGGM signed the statement, participated actively in the working group that helped draft it and took various actions to bring the statement to the attention of other investors and policymakers.

The statement calls for the following measures to be taken:

- setting of a global, binding target for greenhouse gas reduction to prevent dangerous climate change, based on the most recent scientific evidence (50–85% reduction in 2050 compared to 2000);
- setting of long- and medium-term targets for industrialised countries, supported by national action plans;
- drawing up of national action plans by developing countries to improve energy efficiency with the aim of absolute emission reduction in the long term;
- continuation and further (geographic) development of the market in CO₂ allowances;
- revision and broadening of the Clean Development Mechanism (CDM);
- agreements on instruments for public and private co-operation for finance in developing countries;
- combating deforestation and valuing the use of forests for CO₂ storage;
- considering initiatives to adapt to changes in (physical) circumstances due to climate change.

These measures will create conditions for institutional investors to contribute to, and take advantage of, the combating of climate change through their investments.

As a result of our efforts, the European Parliament added a number of measures in a resolution, stressing the importance of binding, long-term targets and explaining that such targets enable investors to better assess the opportunities and risks of climate change. The resolution also underlines the importance of clarity on the role of private capital in investments that are necessary to achieve the climate objectives.

In view of the interest shown by the European Parliament in the views of institutional investors, PGGM decided to organise a roundtable discussion with members of the European Parliament and representatives of the European Commission and the Council of Europe. In this successful meeting in co-operation with the IIGCC, we gave a commentary on the Investor Statement on the Urgent Need for a Global Agreement on Climate Change, drew attention to the need for public-private co-operation in the financing of climate plans and stated our view of the European Union's climate plans. The meeting provides an excellent basis for a continuation of the dialogue with European politicians and policymakers. In view of the results of the Copenhagen negotiations, there is a need to continue the dialogue.

Stepping into the oil sands

After Saudi Arabia, Canada has the largest oil reserves in the world. However, Canada's oil is not in relatively easy-to-exploit oilfields, but in oil sands, also known as tar sands. Oil sand is a mixture of bitumen (a tar-like substance that can be converted into oil), sand and water. Extracting oil from oil sands is energy-intensive and more expensive than conventional oil extraction by drilling into oil reservoirs. The bitumen can be extracted by excavating the oil sands and separating the bitumen from the sand in separation plants using centrifuges. The separation can also be carried out with the aid of steam under the ground. Both processes require a lot of water, and this causes a great deal of water to be wasted. The waste water containing sand, chemicals and bitumen residues, is collected in enormous basins for settlement. However, the settlement is an extremely slow process and very small particles dissolve in the water and barely settle if at all. Bitumen extraction involves considerable economic and environmental risks. PGGM recognises the risks associated with oil extraction from oil sands. In the fourth quarter of 2009, we entered into discussions with companies which operate in this industry – and in which we invest on behalf of our clients – on ways of controlling these risks.

Although there are serious economic risks associated with the exploitation of oil sands – the price of oil, for example, must reach a minimum of \$65-\$85 in order to make oil from oil sands profitable – our focus is particularly on the environmental effects and social consequences. Together with other investors, we have written to a large number of companies in order to gain more information on the measures the companies are taking to minimise the environmental effects of the extraction of oil sands, such as greenhouse gas emissions and the consequences of the excavation for the landscape and biodiversity. We believe that companies also need to consult with local population groups with regard to the social consequences and work constructively with legislators on effective legislation and supervision.

In the fourth quarter, we took the initiative, jointly with a number of institutional investors, to visit relevant operators in the sector in Canada. We visited a number of companies to gain a picture of how oil is extracted from oil sands and the consequences that has for nature and the environment. We visited mining sites and talked to the companies about the risks involved in oil extraction, including detailed discussions on the subject of waste water. Consultations also took place with the Premier of Alberta, the Canadian province in which the oil fields are located, and with social organisations. The discussions with the Premier of Alberta focused in detail on legislation and liability for the damage caused by the exploitation of the oil sands. We will continue the dialogue with the Canadian authorities and companies in this sector in 2010.

6.5 Health

On the theme of health, PGGM devoted attention to the pharmaceutical industry in 2009. Access to medicine was the focus of our engagement programme. Our dialogue was directed towards major pharmaceutical companies. Some companies in the pharmaceutical industry already devote attention to this subject in their policy and activities. These companies deserve and receive our appreciation. We call on other companies to pay greater attention to the possibilities within their operational management and their responsibilities in emerging markets. As investors, we see strategic activities in access to medicine in emerging markets as part of a pharmaceutical company's social responsibility. However, PGGM also sees this as a factor of economic importance which may ultimately affect the value of the company. Activities were begun during the year with a focus on producers of generic (non-patented) medicines, as this sector devotes little attention to access to medicine. PGGM also signed the investors' statement of the Access to Medicine index during the year.

F&C, which has had a longer involvement with issues surrounding access to medicine in developing countries, including through its long-term dialogue with pharmaceutical giants such as Pfizer and GSK, this year urged companies in the pharmaceutical industry to devote attention particularly to the enormous opportunities in emerging markets and to co-operate with a view to achieving not only scientific and commercial but also social results.

6.6 Outlook for 2010

We are entering into a dialogue with at least 48 companies again in 2010. On the human rights theme, a visit to Sudan is planned in order to assess the human rights situation on the ground. On the health theme, dialogue is being continued with pharmaceutical companies. Particular attention will be devoted to producers of generic medicines. We are also continuing our engagement in the fields of climate change and corporate governance. We will continue to report on our activities in engagement and other fields through the quarterly reports on Active Share Ownership on our website.



Key performance indicators with regard to engagement				Target
	2007	2008	2009	2010
Number of companies with which PGGM has carried out engagement activities	13	34	48	≥48
Number of companies with which F&C has carried out engagement activities	715	569	495	30
Number of companies with which F&C has carried out engagement activities under special instructions from PGGM		26	30	
Value of companies with which engagement activities have been carried out as % of total equity portfolio	41%	48%	48%	

Note: no targets are applicable for some of these components. For example, the number of companies with which F&C has carried out engagement activities is not a target per se.

7. LEGAL PROCEEDINGS



On the basis of the Listed Equity Ownership Policy (LEOP), we conduct legal proceedings both in the Netherlands and abroad on behalf of our clients. This is specifically laid down in our Shareholder Litigation Policy. Litigation in the United States occupies a separate position, due to the possibility of claiming damages and/or bringing about improvements in corporate governance by means of class actions.

7.1 Objectives of legal proceedings

The LEOP formulates the main objectives for the conduct of legal proceedings. These are:

- obtaining damages;
- creating value in the long term;
- continuity of the company's activities; and/or
- achieving good corporate governance and good business conduct.

There must be clearly demonstrable grounds for initiating legal proceedings, such as fraud or forms of unsound corporate governance. Most legal proceedings concern companies in the United States, where a relatively large proportion of our clients' assets are invested. Investors in the United States have relatively few shareholder rights to bring about changes in companies. Conducting legal proceedings is then an effective and tactical instrument for entering into a dialogue with companies.

7.2 Active proceedings

Active proceedings are cases in which PGGM conducts its own independent legal proceedings against a company. These can also include proceedings against executive and non-executive/supervisory directors in person or third parties (auditors, advisers, etc.). The main forms are a) direct action and b) collective action. Below we describe the three cases in which we were involved in proceedings in 2009.

AIG

In 2008, the world's largest insurer got into severe difficulties as a result of rapidly mounting losses and collapsing stock-market prices due to exposure to problematic CDS (credit default swap) transactions. Legal proceedings were initiated on the grounds that AIG had given investors misleading information. In July 2008, PGGM filed a petition with the district court in New York on behalf of one of its clients, Stichting Pensioenfondsen Zorg en Welzijn, to be appointed as lead plaintiff jointly with the Canadian Ontario Teachers Pension Plan (OTPP)

in the case against the US insurer American International Group (AIG). The role of a lead plaintiff is to defend the collective interests of all misled investors represented in the 'class'. The State of Michigan Retirement Systems also filed a petition to be appointed as lead plaintiff. In March 2009, the US court ruled that the State of Michigan had preference over the PGGM-OTPP combination. As a participant in the 'class' of misled investors, PGGM continues to monitor these proceedings closely on behalf of its clients.

Shell

A settlement in the Shell case was reached in 2009. At the end of May 2009, the court of appeal in Amsterdam declared that the 2007 settlement between Shell, one of PGGM's clients and other institutional investors with regard to the company's gas and oil reserves for all non-American investors was generally binding. There had already been a settlement between Shell and US investors on compensation per share for damages suffered. The declaration of the settlement as generally binding means that all investors in Shell can recover part of their loss. By order of the court, notices have been published worldwide since the end of 2009 inviting misled Shell investors to claim their damages by completing the required claim forms. The claims administrator can only distribute the settlement amount once the period allowed for the submission of these forms has expired on 5 November 2010.

Bank of America

In the spring of 2009, we filed a petition on behalf of one of our clients with the district court in New York. Together with the pension funds of the State of Ohio, Texas Teachers and Sweden's AP4, we wished to be appointed as lead plaintiff in a class action against Bank of America. This case concerned the withholding of relevant facts in the acquisition of Merrill Lynch. The enormous loss which investors suffered due to the fall in the Bank of America share price following revelations on the actual financial state of affairs at Merrill Lynch were the immediate grounds for demanding this active role as lead plaintiff and protecting the interests of misled shareholders in the 'class'.

On 1 July 2009, the New York court appointed the above group as lead plaintiff, giving preference to the combination of US and European investors over the Californian Calpers-Calsters combination, which had filed a similar petition. It was the first time that PGGM had been appointed as lead plaintiff in a class action in the United States.

After the above parties had been appointed in the summer of 2009, we concentrated on filing an 'amended complaint'. This stated the grounds on which Bank of America and a number of its directors were liable for the shareholders' losses. Procedural steps were then taken to obtain all kinds of documentation from Bank of America. The bank had previously made this information available to the authorities. The court ultimately ruled that Bank of America must also supply the documentation to us. The entire proceedings are expected to take a number of years.

7.3 Class actions

Class action is the American name for a lawsuit conducted by a group ('class') of victims sharing a common interest. This group does not necessarily have to have an identical interests but works together in order to bring a claim before a court ('action').

The proceeds of class actions over the last five years are shown in the table below. They are allocated to the year in which the proceeds of the respective class action were actually received. That is usually not the year in which the class action was brought or the settlement was reached. As can be seen from the table, the proceeds of class actions increased particularly from 2006. The proceeds in 2007 were due to settlements in cases such as Ahold and Broadcom, amongst others. In 2008, a large part of the proceeds came from compensation in cases such as

WorldCom, Vivendi and PNC Financial Services Group. In 2009, the damages paid in the Tyco International case made up a substantial part of the total. This case was settled with investors for approximately \$3 billion. The former CEO and CFO are serving prison terms in excess of 25 years due to the company's aggressive accounting methods. As well as cash payment, improved corporate governance structures in the companies concerned remain an important part of the settlements.

Proceeds of class actions in the last five years

2005	€ 247,698
2006	€ 1,472,816
2007	€ 4,646,307
2008	€ 3,674,956
2009	€ 6,574,827
Total	€ 16,616,604

7.4 Outlook for 2010

In the spring of 2010, the US court is expected to rule that we can continue the proceedings brought against Bank of America by us on behalf of Pensioenfond s Zorg en Welzijn and by other pension funds. The first hurdle, the 'motion to dismiss' filed with the court by Bank of America, will then have been cleared. That will open the way to the commencement of the 'discovery' procedure, involving the gathering of further evidence, mainly in the form of written documentation and witness hearings. Experience shows that this will take a considerable time.

In the course of 2010, the Shell settlement claims administrator will announce how many Shell investors have submitted claim forms and how many investors are opting out of the settlement. Investors who do not wish to take part in the settlement have until the end of February 2010 to state their choice. It is estimated that the opt-out percentage will be so low that settlement will be declared final and payment can be made. We are not expecting any payment before the end of 2010/beginning of 2011.

In 2010, PGGM will again systematically monitor new or ongoing class actions in the United States and legal proceedings in other parts of the world. If necessary, we will take an active stance and initiate our own proceedings if that is in the interests of our clients.

Class action and misrepresentation by Bank of America

On Monday 15 September 2008, the US investment bank Lehman Brothers filed for bankruptcy protection. Over the previous weekend there had been a frantic search to find a buyer for the bank, to no avail. The main potential buyers were Bank of America and Barclays, but these were not prepared to lend a helping hand to the loss-making bank. Instead, Bank of America set its sights on Merrill Lynch, which market participants saw as the possible next victim of the financial crisis.

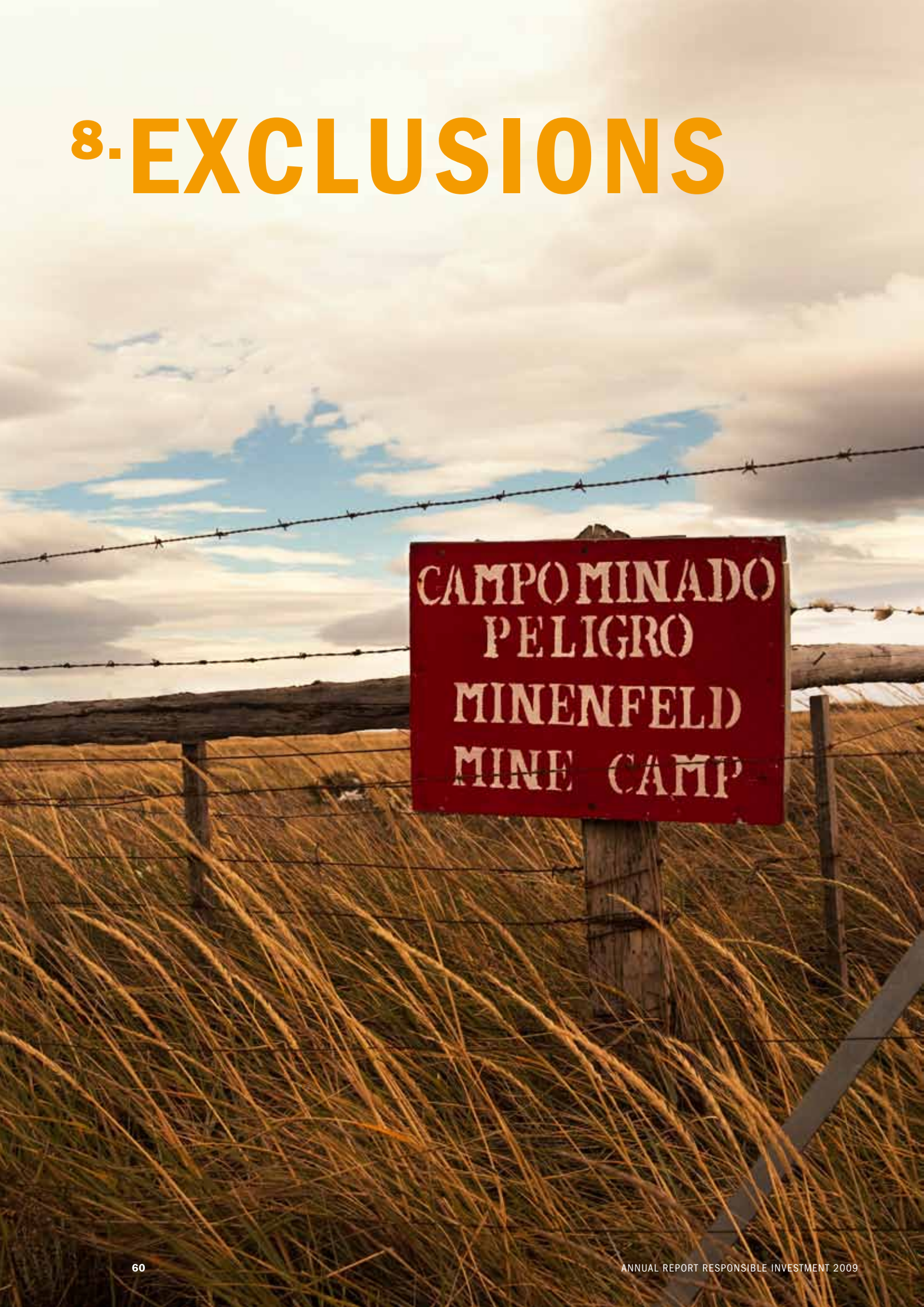
After 48 hours of negotiations, Bank of America announced before the opening of the stock market on Monday 15 September that it was acquiring Merrill Lynch. The acquisition price was \$50 billion, payable in shares. Bank of America's CEO Ken Lewis would remain in charge, and Merrill Lynch's chief executive John Thain also initially stayed on, but left in January 2009 with his reputation damaged as knowledge spread that he had demanded a substantial bonus for his work in 2008.

The acquisition came as a complete surprise to Bank of America's shareholders, because it had taken place in a short space of time, and under pressure from the US Government. The \$50 billion price was high. The surprise was not made any more pleasant by the fact that shortly after shareholders approved the acquisition it was revealed that Merrill Lynch had suffered a further loss of \$15 billion in the fourth quarter of 2008. Earlier that year around \$40 billion had been written off the value of mortgage products. When it emerged that undisclosed bonuses were being hastily paid out to former Merrill Lynch directors, enough was enough.

Numerous investigations were launched, including by the SEC, by the Attorneys General of New York and of North Carolina, where Bank of America is based, and by the Department of Justice, investigating possible criminal acts. The US Congress also held public hearings in which the main protagonists were questioned publicly about the state of affairs surrounding the acquisition.

Bank of America received a total of \$45 billion of state aid in the first half of 2009 to help it weather the financial crisis. It repaid the emergency loans in a single amount at the end of 2009. CEO Ken Lewis also announced that he would step down on 1 January 2010. His position had been under fire for a considerable time, and investors had demanded his resignation at the bank's AGM in the spring of 2009.

8. EXCLUSIONS



The exclusions policy was applied in full in 2009. New information on companies' involvement with controversial weapons resulted in four additions to the exclusions list. The talks we conducted with companies in 2009 on their compliance with human rights and labour law led to no new exclusions. Our discussions about various countries with experts and clients led to our list of excluded government bonds being maintained.

8.1 Targeted policy

Our exclusions policy is intended to prevent us from making investments on behalf of our clients which do not fit in with their and our identity. We have therefore conducted an exclusions policy since 1985. We have opted to focus on two areas: controversial weapons and human rights. Our engagement policy (part of the LEOP) also enables companies to be excluded if engagement on other themes does not result in the desired change of behaviour.

8.1.1 Weapons

Under the exclusions policy, we do not invest on behalf of our clients in companies involved in the production and trading of weapons whose use leads to a violation of fundamental human rights. We focus on controversial weapons. These are weapons whose use can cause large-scale suffering and which are aimed at civilians or particularly at causing civilian casualties.

Proportionality plays an important role here: the military advantage must be weighed against the possible humanitarian consequences. Our policy is aimed at six types of weapons in two categories (see table below). Companies which have a substantial involvement in the trading or production of such weapons are immediately excluded from investment. Substantial involvement means that a company produces or trades end-products or components which are essential for the operation of the weapon.

Summary of weapons exclusion criteria

Weapons of mass destruction:

- Nuclear weapons
- Chemical weapons
- Biological weapons

Weapons with a risk of civilian casualties after military conflict:

- Anti-personnel landmines
- Cluster bombs
- Munitions with depleted uranium

8.1.2 Human rights

In the exclusions policy we devote explicit attention to human rights in companies. Human rights are defined as the rights set out in the Universal Declaration of Human Rights of the United Nations (UN) and the fundamental labour rights as laid down by the International Labour Organisation (ILO). If human rights are violated in a country or region in which a company operates, these rights must be expressly included in the company's policy and/or conduct. If cases of human rights violations are identified within a particular company's sphere of influence, we will strive to improve the situation by entering into discussions with that company. If there is no improvement, nor any expectation of improvement, we exclude the company.

In order to ascertain whether companies are involved in controversial weapons and/or human rights violations, we use information from two specialist research agencies: Sustainalytics and EIRIS.

8.1.3 Government bonds

Companies are not the only entities in which we invest which can be involved in controversial weapons and human rights violations. The exclusions policy therefore applies to all investments. States (governments) in particular often play a major role in the production and use of controversial weapons and human rights violations. The most direct way of investing in states (and their governments) is through government bonds. Investments in government bonds involve a financing relationship, not a relationship of ownership with potential for dialogue. In addition, states are sovereign. We therefore see engagement with states on ethical questions mainly as a diplomatic activity carried out between sovereign states.

These characteristics of government bonds preclude the full application of the exclusions policy. The exclusions policy has therefore been supplemented with a specific provision for government bonds, stating that we follow universally recognised condemnations. We see this as the most appropriate way to set ethical limits on investments in government bonds. The main universally acknowledged condemnations of states are the sanctions applied by the UN Security Council and boycott calls (in formal terms, calls to reconsider all relations) by the International Labour Organisation (ILO). These organisations have the authority to form public judgements on sovereign states. In addition, on the basis of our own judgements and consultations with our clients, we may decide to exclude additional government bonds. This can happen if the only conclusion we can draw is that these countries are violating our policy, and that of our clients, on a large scale without any positive recent developments or any such prospect in the near future.

8.2 Application of the exclusions policy

PGGM monitors the liquid investments on a daily basis for compliance with the exclusions policy. The application of the exclusions policy comprises two main pillars: the exclusion lists and the provisions of the policy on the basis of which companies and projects are assessed and which are included as an investment restriction in contracts with external managers. The latter restriction is mainly applied to illiquid investments. The exclusions list is revised twice a year on the basis of internal and external information. The list applies to all internally and externally managed active and passive portfolios.

8.2.1 Liquid investments (listed)

In 2009, we excluded a total of 33 companies. They made up 1.2% of our ALM benchmark for equities at the end of 2009. Four companies were added to the exclusions list due to involvement with controversial weapons: ITT, Jacobs, MOOG and Zodiac Aerospace. The German company Rheinmetall was removed from the exclusions list. Formal contact with the company showed us that all of Rheinmetall's activities relating to cluster munitions had been terminated. The company also confirmed that it would not undertake any new activities in that direction.

As in 2008, the government bonds of North Korea, Burma (Myanmar), Iran, Sudan and Somalia were excluded in 2009.

8.2.2 Illiquid investments

For illiquid investments, the provisions of the exclusions policy are often more relevant than the exclusions list, which relates to listed investments. The provisions of the exclusions policy were once again included as an investment restriction in contracts with our investment partners in 2009.

We were able to ascertain that 98% of the total portfolio did not violate the exclusions policy. That does not mean that the other 2% do violate it, but we cannot guarantee that no investments will be made which contravene the provisions of the policy or the exclusions list.

<i>Company</i>	<i>Country</i>	<i>Reason for exclusion</i>
Aerostar	Romania	Cluster bombs
Alliant Techsystems	US	Anti-personnel mines; munitions with depleted uranium
BAE Systems	UK	Nuclear weapons
Boeing	US	Nuclear weapons
Cobham	UK	Cluster bombs
EADS	Netherlands	Nuclear weapons
Finmeccanica	Italy	Nuclear weapons
GenCorp Inc.	US	Munitions with depleted uranium; nuclear weapons
General Dynamics	US	Munitions with depleted uranium
Goodrich Corporation	US	Nuclear weapons; cluster bombs
Hanwha Corporation	South Korea	Cluster bombs
Honeywell	US	Nuclear weapons
ITT Corporation	US	Nuclear weapons
Jacobs Engineering	US	Nuclear weapons
Kaman	US	Cluster bombs
L3 Communications	US	Cluster bombs
Larsen & Toubro	India	Nuclear weapons
Lockheed Martin	US	Nuclear weapons; cluster bombs
Magellan Aerospace	Canada	Cluster bombs
McDermott International	US	Nuclear weapons
MOOG	US	Nuclear weapons
Northrop Grumman	US	Nuclear weapons
PetroChina Company Ltd	China	Human rights
Poongsan	South Korea	Cluster bombs
Raytheon	US	Nuclear weapons; cluster bombs
Rockwell Collins	US	Nuclear weapons
Saab AB	Sweden	Cluster bombs
Safran	France	Nuclear weapons
Serco Group plc	UK	Nuclear weapons
Singapore Technologies	Singapore	Anti-personnel mines; cluster bombs
Textron	US	Anti-personnel mines; cluster bombs
Thales	France	Nuclear weapons
Zodiac Aerospace	France	Cluster bombs

Exclusions within hedge funds

A separate department was established to deal with investments in hedge funds in 2009. These were previously the responsibility of the Portfolio of Strategies department. The aim of the new department is to use various hedge fund strategies to create a portfolio with a stable return and a low correlation with the existing investment mix. Hedge funds are investment funds in which the manager aims to generate an absolute return. A hedge fund benefits from a high degree of freedom in terms of investment instruments and strategies. At the end of 2009, the hedge fund portfolio comprised six hedge funds selected and managed by the team and a number of funds of hedge funds through separate accounts. The total capital invested in hedge funds amounts to €1.6 billion.

The high degree of freedom which hedge funds enjoy in terms of investment instruments and strategies makes it more complicated to impose our exclusions policy on hedge fund managers. That is partly due to the fact that other parties invest in the same funds and could thus be affected involuntarily by our exclusions policy. However, this did not prevent us from entering into an intensive dialogue with the managers.

PGGM decided in 2009 to convert the portfolio into an internally managed portfolio of hedge funds, partly to allow better application of the Responsible Investment Policy. This allows greater control of the investment conditions which we impose on these funds. This means that active engagement on relevant ESG themes is even more possible and that the exclusions policy can be applied to a larger proportion of the portfolio by means of a direct dialogue with the manager. To this end, PGGM also enters into targeted agreements with managers of the hedge funds where possible, for example by means of an excuse provision. This is an arrangement whereby the return on investments in excluded companies is not attributed to us. It enables us to fulfil the exclusions policy, while other investors in the fund are not affected by our investment restrictions.



8.3 Outlook for 2010

We will again conduct two periodic reviews of the exclusion list in 2010. We will also maintain a structural dialogue with managers of external funds who are unable to apply the policy. In this dialogue, we will focus on a search for alternative ways of integrating the exclusions policy and convincing the managers of the necessity and usefulness of the policy. The last resort is to discontinue using these external managers.

<i>Key performance indicators with regard to exclusions</i>	<i>Target</i>			
	2007	2008	2009	2010
% total of assets under management covered by exclusions policy	90%	98%	98%	98%
Number of excluded companies	29	30	33	
Excluded companies as proportion of FTSE All World benchmark	0.87%	1.23%	1.18%	
Number of excluded government bonds		5	5	

Note: no targets are applicable for some of these components. For example, the number of companies to be excluded is not a target per se.

9. OUTLOOK



PGGM stays focused on responsible investment. That is why we will remain ambitious in 2010 and will formulate new goals.

PGGM conducts integrated responsible investment activities on behalf of its clients. As a result of our innovative and transparent policy and activities, PGGM is seen as a leader in responsible investment. For example, our exclusions policy covers 98% of assets under management and we vote at 99% of shareholders' meetings. We aim to remain the leader. For us responsible investment is more than achieving these results. We will continue to pioneer and innovate. We will further develop and deepen all our investment processes and activities in the field of responsible investment in 2010. Specific attention will be devoted to the following subjects in 2010:

- We will increase the assets invested in targeted ESG investments.
- For all investment categories, we will assess which ESG factors potentially or actually have a material financial impact on our investment decisions.
- We will raise the quality of our voting activities by integrating them more with our engagement activities and focusing on achieved successes and effects.
- We will further intensify our activities in the fields of human rights, climate change, health and corporate governance.
- We will develop a methodology that makes sustainable returns measurable. We began to do this in 2009. We are doing this for our own information and to answer questions from society, including the 'Pensions: an Uncertain Certainty' report published in January 2010 by the Frijns Committee
- We will establish an advisory board on responsible investment in order to obtain independent advice on responsible investment.

For us, the job of responsible investment is never complete. We therefore set ourselves the constant challenge of sharpening the definition and meaning of responsible investment. Innovation in this field is a necessity for us, and we innovate out of a conviction that responsible investment is the natural way forward. Our clients want to be able to pay good pensions, from funds that are managed responsibly. We therefore see the world of asset management moving further in the direction of responsibility in 2010. PGGM will continue to contribute to this process, for our clients, the sector and other stakeholders.

Appendix I

Reporting process and principles

Structure of report and selection of essential subjects

This PGGM Annual Responsible Investment Report 2009 provides information on the 2009 financial year running from 1 January to 31 December 2009. PGGM publishes an Annual Responsible Investment Report because we wish to report transparently to third parties on integrated responsible investment. The report covers the activities which are of importance to us: integration in the investment process, targeted ESG investments, exclusions, the use of voting rights, dialogue as a representative of the shareholder and legal proceedings in relation to share ownership. These subjects are covered in the respective sections of this Annual Report. As an asset manager for institutional investors with a widely diversified portfolio, it is not easy to determine the most essential subjects affecting our activities in the field of responsible investment. The most relevant subjects have been selected on the basis of various sources, such as our clients, their participants, social organisations, brokers and data suppliers. These subjects are human rights, weapons, good corporate governance, climate change and health. They are expressed in voting behaviour, engagement projects, exclusions, the selection of targeted ESG investments and the assessment of investment proposals and analyses in terms of ESG factors.

Guidelines followed

In compiling the PGGM Annual Responsible Investment Report 2009 we have adhered to the international reporting guidelines of the Global Reporting Initiative, in particular the GRI Financial Services Sector Supplement (FSSS Final Version, 2008). This annual report provides a separate list of GRI indicators with the key performance indicators and Appendix VI contains a GRI index with the FSSS indicators. In addition, Appendix V shows how our policy and activities fit in with the six Principles for Responsible Investment.

Control

The text in the PGGM Annual Responsible Investment Report 2009 has been checked internally by the Tax, Legal & Compliance department, among others. The importance of external auditing by an independent auditor is not (yet) justified on cost grounds. The non-financial data has been compiled using the databases of the Responsible Investment department and external suppliers.

Appendix II

Recognition by third parties

Our ambitions as set out in our Responsible Investment Policy and the various activities in the field of responsible investment are widely recognised.

The following are examples:

PRI Survey

Every year the PRI conducts a survey, known as the PRI Reporting & Assessment survey. PGGM emerged in the leading group of asset managers in the 2009 assessment. We even came first in some subjects. The survey is one of the main ways in which the PRI helps signatories to monitor their progress in implementing the PRI. Although the survey is a voluntary and ambitious framework, participation is a requirement for all PRI signatories. Those who do not fulfil this requirement will be publicly struck off from the PRI. The survey questions and our answers can be viewed on the PRI website (<http://www.unpri.org>).

Excluding cluster bombs

PGGM's Exclusions Policy is progressive, a fact which was demonstrated again in 2009 by the survey conducted by the Dutch non-governmental organisation IKV Pax Christi and the Belgian Network Vlaanderen among 168 financial institutions worldwide concerning investments in companies producing cluster bombs. PGGM includes cluster bombs under the controversial weapons heading, so such companies are excluded. The survey showed that there were no companies in PGGM's investment portfolio that produced cluster bombs. As a result, PGGM is one of the six financial institutions included in the 'Hall of Fame' list. The researchers have [(so far)] found a total of 30 financial institutions worldwide which have a specific exclusion with regard to companies producing cluster bombs.

Socially responsible investing policies

As in previous years, the Association of Investors for Sustainable Development (Vereniging van Beleggers voor Duurzame Ontwikkeling – VBDO), in co-operation with the research agency Profundo, published the results of the comparative survey of the socially responsible investment policies of pension funds ('Benchmark Responsible Investment by Pension Funds in the Netherlands 2009') in December 2009. This year, 43 pension funds were assessed on the basis of returned survey forms. Once again, Stichting Pensioenfonds Zorg en Welzijn, for which PGGM is the exclusive provider of asset management, came top of the list. That means that, as in 2008 and 2007, it was the best-performing pension provider according to the VBDO in 2009.

Appendix III

Overview of collaborative initiatives

Asian Corporate Governance Association (ACGA), www.acga-asia.org

ACGA is a non-profit organisation established in Hong Kong which works with investors, companies and regulators to implement effective corporate governance in Asia. ACGA was formed in 1999 on the basis of a conviction that corporate governance is of fundamental importance for the long-term operation of Asian economies and financial markets. ACGA carries out research, representation of interests and education. PGGM has been a member of ACGA since 2008.

Carbon Disclosure Project (CDP), www.cdproject.net

CDP is the largest association of institutional investors relating to the effects of climate change on world business. CDP collects relevant information on companies and distributes it to investors. To this end it sends annual requests to companies to take part in the reporting process. Such requests were sent to more than 3,000 companies in 2008. PGGM is one of the signatories of the letter. PGGM has supported CDP since 2004.

Council of Institutional Investors (CII), www.cii.org

The CII is a US organisation representing many institutional investors, mainly pension funds. The members of the CII collectively administer more than \$3 trillion. The organisation represents the interests of its members and is active in the United States in the field of shareholder rights, corporate governance and other subjects of relevance to investors. Members of the organisation can take part in activities of relevance to them through the organisation's various committees. PGGM has been a member of CII since 2008.

Eumedion, www.eumedion.nl

Eumedion officially began its work as the successor to Stichting Corporate Governance Onderzoek voor Pensioenfondsen (SCGOP) on 1 January 2006. Eumedion represents the interests of its affiliated institutional investors and is an opinion former in the field of corporate governance. On the basis of the responsibilities of institutional investors established in the Netherlands, Eumedion's aim is to maintain and develop good corporate governance and promote acceptance of and compliance with corporate governance standards by listed companies and institutional investors. Eumedion focuses particularly on the Netherlands and Europe. At the end of 2009, Eumedion had 65 members. Eumedion's membership includes both small and large institutional investors. In addition to Dutch institutional investors, a number of foreign institutional investors are affiliated to Eumedion. PGGM was a co-founder of SCGOP and Eumedion and participates actively in all committees.

Institutional Investors Group on Climate Change (IIGCC), www.iigcc.org

IIGCC is a European platform for co-operation among institutional investors in the field of climate change. IIGCC aims to foster a better understanding of the implications of climate change among the members and other institutional investors. Encouraging investors to act accordingly is another important activity. Finally, IIGCC focuses on support for regulation and market solutions which both provide an effective answer to climate change and are consistent with long-term investment objectives. PGGM has been a member of IIGCC since January 2007 and is a member of the steering group and the public policy group.

International Corporate Governance Network (ICGN), www.icgn.org

The staff in our Responsible Investment team are personal members of the ICGN (ICGN has no institutional members). The ICGN has four main objectives:

1. Providing a network of and for investors for the exchange of views and information on international corporate governance subjects;
2. Conducting research into corporate governance principles and practices;
3. Developing and encouraging the adoption of corporate governance standards and guidelines;
4. Promoting good corporate governance in general.

UN Principles for Responsible Investment (UN PRI), www.unpri.org

PGGM was closely involved in the creation and development of the UN PRI. We were among the first group of signatories and have been sponsors since the principles were launched in April 2006. The PRI are a set of six principles which can be endorsed by asset managers and pension funds to demonstrate their commitment to responsible investment. The principles are intended to offer practical assistance on the incorporation of factors such as the environment, social conditions and corporate governance into investment practice and investment decisions. Over 685 institutions worldwide have now signed the PRI. The total invested capital of these parties exceeds \$18 trillion. Else Bos, Chief Institutional Business, serves on the Board on behalf of Pensioenfondsen Zorg en Welzijn. PGGM takes part in all working groups.

Appendix IV

Abbreviations

ACGA

Asian Corporate Governance Association

AGM

Annual General Meeting (of shareholders)

CDP

Carbon Disclosure Project

CDM

Clean Development Mechanism

CII

Council of Institutional Investors

CIO

Chief Investment Officer

EGM

Extraordinary General Meeting (of shareholders)

ESG

Environmental, Social and Governance

GRI

Global Reporting Initiative

ICGN

International Corporate Governance Network

IIGCC

Institutional Investors Group on Climate Change

ILO

International Labour Organisation

ISS-RiskMetrics

Institutional Shareholder Services, part of RiskMetrics

KPI

Key performance indicator

LEOP

Listed Equity Ownership Policy

PoS

Portfolio of Strategies

PRI

Principles for Responsible Investment

REP

Responsible Equity Portfolio

RI

Responsible Investment

RIRE

Responsible Investing for Real Estate

SBM

Strategic Benchmark

VBDO

Vereniging van Beleggers voor Duurzame Ontwikkeling
(Dutch Association of Investors for Sustainable
Development)

Appendix V

PRI Index

PGGM is committed to the Principles for Responsible Investment, an initiative of investors in co-operation with the United Nations (UNEP Finance Initiative and UN Global Compact). PRI applies six Principles for Responsible Investment. References to these principles in our reporting on our policy and activities in this annual report are detailed below.

The Principles for Responsible Investment (PRI)

Principle 1.

We will incorporate ESG issues into our investment analysis and decision-making processes

Actions:

- Address ESG issues in the investment policy 1.2; 3.1; 5.1; 6.1; 7.1; 8.1
- Support development of ESG-related tools, metrics and analyses 4.2.2; 4.2.3; 4.2.7
- Assess the capabilities of external investment managers to implement ESG subjects 4.2.3
- Ask financial service providers to integrate ESG subjects into their research and analysis 4.2.3; 6.1
- Encourage academic and other research on this subject 4.2.2
- Promote ESG training for investment professionals Section 4

Principle 2.

We will be active owners and incorporate ESG issues into our ownership policies

Actions:

- Develop and disclose an active share ownership policy 3.1; section 5; 6.1; 3.1; Section 5; 6.1
- Exercise voting rights or monitor compliance with voting policy (if outsourced) Section 5; Section 7
- Develop an engagement capability (either directly or through outsourcing) Section 5; Section 6
- Participate in the development of policy, regulation and standard setting (such as promoting shareholder rights) Section 6
- File shareholder resolutions consistent with long-term ESG considerations 6.3; 5.2
- Engage with companies on ESG issues section 6 Section 6
- Participate in collaborative engagement initiatives Section 6
- Ask investment managers to undertake ESG-related engagement and report on it Section 6

Principle 3.**We will seek appropriate disclosure on ESG issues by the entities in which we invest**

Actions:

- Ask for standardised reporting on ESG issues 6.1
- Ask for ESG disclosure to be integrated within annual financial reports 6.1
- Support shareholder initiatives and resolutions promoting ESG disclosure 5.1; Section 6

Principle 4.**We will promote acceptance and implementation of the Principles within the investment industry**

Actions:

- Include Principles-related requirements in requests for proposals (RfPs) 4.1; 4.2;
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly 1.4
- Communicate ESG expectations to investment service providers 4.2
- Review relationships with service providers which do not fulfil ESG expectations 4.2.3
- Support the development of resources for benchmarking of ESG integration 4.2.2
- Support regulatory or policy developments that enable implementation of the Principles 3.2

Principle 5.**We will work together to enhance our effectiveness in implementing the Principles**

Actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning 3.2.3; 6.1; appendix III
- Collectively address important issues Section 6
- Develop or support appropriate collaborative initiatives 6.1; appendix III

Principle 6.**We will each report on our activities and progress towards implementing the Principles**

Actions:

- Disclose how ESG issues are integrated within investment practices Section 4
- Disclose active share ownership policy (voting, engagement, and/or policy dialogue) Section 5; 6; 7; 3.2
- Show what is required of service providers in relation to the Principles –
- Communicate with participants about ESG issues and the Principles 3.2
- Report on developments and achievements relating to the Principles 1.4; appendix I; appendix V; appendix VI
- Try to determine the impact of the Principles 2009 Annual Report; appendix V
- Make use of reporting to raise awareness among a broader group of stakeholders 2009 Annual Report and 2009 quarterly reports

Appendix VI

GRI Index

GRI Financial Services Sector Supplement		
Category	Aspect	Indicator
Reporting on management approach specifically in the financial sector		FS1
		FS2
		FS3
		FS4
		FS5
Products and services impact	Product labelling	FS15
	Product portfolio	FS6
	Product portfolio	FS7
	Product portfolio	FS8
	Audit	FS9
	Active ownership	FS10
	Active ownership	FS11
Social performance indicators	Society	FS13
	Society	FS14
Product liability	Welfare of clients	FS16

Description	Indicator coverage	Section reference
Policy with specific environmental and social components applied to business lines	Fully covered	3.0, 3.1, 3.3, 4.1, 5.1, 6.1, 7.1, 8.1
Procedures for assessing and screening environmental and social risks in business lines for each policy	Fully covered	4.1, 4.2, 4.3, 5.2, 6.2, 6.3, 6.4, 6.5, 7.2
Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions	Not covered	
Process(es) for improving staff competency to address environmental and social risks and opportunities	Partly covered	Section 4
Interactions with clients and other stakeholders regarding environmental and social risks and opportunities	Fully covered	3.2, section 6, appendix 1
Policy for the fair design and sale of financial products and services	Not covered	
Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and sector	Partly covered	1.3
Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	Fully covered	4.3
Total monetary value of specific environmental products and services broken down for each business line	Fully covered	4.3
Coverage and frequency of audits to assess implementation of environmental and social policy and risk assessment procedures	Not covered	
Percentage and number of companies held in the institution's by purpose with which the reporting organisation has interacted on environmental and social issues	Fully covered	1.4, 6.1, 6.6
Percentage of assets subject to positive and negative environmental or social screening	Fully covered	1.4, 4.4, 5.2, 5.3, 8.3
Voting policy applied to environmental or social issues for shares over which the reporting organisation holds the right to vote or to advise on voting	Fully covered	5.2
Access to products and services in remote and less developed areas	Not applicable	
Initiatives to improve access to products and services for disadvantaged people	Not applicable	
Initiatives to enhance financial literacy	Partly covered	3.2

Colophon

This annual report is a PGGM publication.
For further information, please contact

Dr Marcel Jeucken
Head of Responsible Investment

PGGM Investments
Kroostweg Noord 149
3704 DV Zeist

PO Box 117
3700 AC Zeist
Telephone: +31 (0)30 277 1377

E-mail: Responsible.Investment@pggm.nl
Graphic design by PI&Q, Zeist (The Netherlands)
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PGGM

Kroostweg-Noord 149
Postbus 117, 3700 AC Zeist
www.pggm.nl
K.v.K. 41179049

