



**RESPONSIBLE INVESTMENT**  
**Summary Annual Report 2010**





**Responsible investment:  
an inspiring necessity for society,  
the environment and business.**

**PGGM Vermogensbeheer B.V. (PGGM) consciously takes account of the impact of environmental, social and corporate governance (ESG) factors in its investment activities. We do so on the basis of our identity and a conviction that responsible investment pays and that financial and social returns go hand in hand. We implement this policy on behalf of and in consultation with the pension funds for which PGGM carries out asset management.**

Our Responsible Investment Policy sets out our vision of responsible investment. We incorporate ESG factors in our investment analyses, make targeted ESG investments, address companies about their policies and conduct an active policy of voting at shareholders' meetings (AGMs). We also have a policy of excluding investments which do not suit our identity.

### **Accountability**

Responsible investment is a continuous improvement process involving regular consultations with our clients, non-governmental organisations, political parties and companies. We also publish reports in order to account for our activities. These include our quarterly reports and the Annual Responsible Investment Report 2010, of which this is a summary. These publications can also be found on our website.

### **Key points of the Responsible Investment Policy**

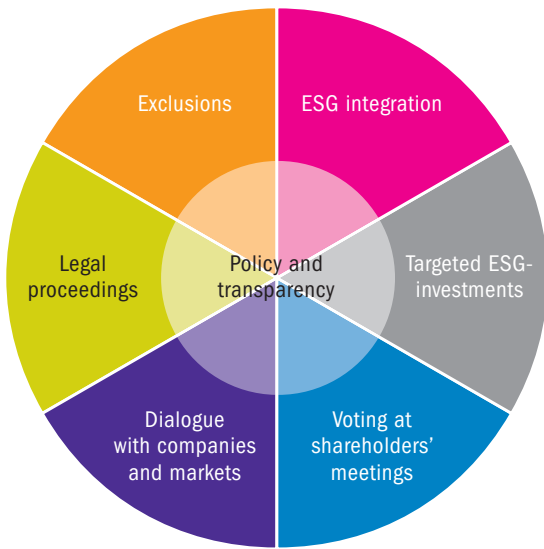
The key points of our policy are:

- Active backing for the conviction that financial and social returns can go hand in hand;
- Actively representing clients to contribute to the quality and continuity of companies and financial markets;
- 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;
- Accountability with regard to targets, activities and results in the field of responsible investment.

These key points are in line with the United Nations Principles for Responsible Investment (PRI).

### **Investment decisions**

We base our investment decisions on financial criteria, including ESG factors. We therefore assess any financial impact which environmental, human, social and corporate governance factors may have on our investments.



***‘Responsible investment is of great importance to PGGM. It fits our identity as an asset manager for long-term investors and contributes to a valuable society. In 2010 we were successful in responsible investment and we look back at that with satisfaction. The coming years we will continue to innovate for our customers and society.’***

**Jac Kragt,  
Chief Investment Officer**

## **ESG integration**

In 2010 we surveyed all the material ESG factors across all investment departments. These are factors which have a major financial impact on the underlying investment. Examples are the consequences of climate change for the risk and return of real estate and infrastructure and the effects of corporate governance arrangements on the return. The survey of material ESG factors has given us greater insight into the impact of ESG factors on our investments.

The survey constitutes the first phase of the ESG integration process. It gives the investment departments an insight into the material ESG factors for their investment analyses. In 2010 we successfully completed the inventory phase for all 23 investment categories, so that the implementation phase (phase 2) could be initiated.

Some departments have already carried out projects in the implementation phase. For example, the Private Real Estate department required its external fund managers to apply the specific ESG policy when selecting new private real estate funds and they are required to report on sustainability criteria, such as energy and water consumption. PGGM was also one of the founding members of the International Sustainability Alliance (ISA), which draws up guidelines for the real estate sector with regard to sustainability indicators. The Real Assets department (mainly forestry and agriculture) is in the second phase and conducted an ESG investigation among external managers in 2010.

The investigation of the impact of climate change on various investment categories and the strategic asset allocation which PGGM initiated with other investors in 2009 was almost completed in 2010. One of the results is an overview of risk factors in each investment category. A disappointing conclusion is that integrating climate change in the strategic asset allocation does not currently offer any added value. The investigation has nevertheless provided valuable information for risk management and for our dialogue with policymakers and politicians.

## Targeted ESG investments

We use targeted ESG investments to achieve or promote a specific social return in addition to a financial return. These mandates grew in size from €2.6 billion in 2009 to €3.7 billion in the past year.

Examples of new targeted ESG investments in 2010:

- Together with Ampere Equity Fund we acquired an interest of almost 25% in the UK's Walney offshore wind park, which has 102 turbines.
- We increased our interest in the BNP Clean Energy Fund, which invests in sustainable energy projects.
- We invested in the IFC African, Latin American and Caribbean Fund, which promotes the economic growth of developing countries, creates jobs and implements poverty programmes.
- We increased the mandate for our own Responsible Equity Portfolio to €2 billion. This comprises responsible investments in listed companies on which the return must be at least equivalent to the benchmark.
- Jointly with Princess Máxima and four fund managers we initiated a set of guidelines on responsible investment in microfinance.

Examples of ongoing targeted ESG investments in 2010:

- We continued to invest in clean technology through AlInvest.
- We invest in a forestry fund in which we are co-operating with nature conservation organisations.
- We are sharing the credit risk of various project financing structures in sustainable energy.

## Research

Last year we began a research project with Erasmus University in Rotterdam to measure the social added value of targeted ESG investment. This resulted in a method to determine the expected social benefits of an investment.

## Voting

PGGM makes active use of its right to vote at shareholders' meetings. We voted at 99% of all AGMs of companies in our portfolio in 2010.

In our voting policy we devote particular attention to resolutions concerning ESG factors. This may mean that we vote in favour of a code of conduct relating to labour law or that we abstain from voting on resolutions concerning oil companies' exploitation of tar sands. We may also vote against directors' pay if it is high, excessive and not linked to performance.

## Engagement

We engage with companies and markets about their policy and activities if we believe they should perform better particularly in the field of human rights, climate change, corporate governance and health. We do so in the first place by entering into a dialogue.

## Guidelines

Through our participation in a United Nations platform, we were closely involved in drawing up new guidelines for companies operating in conflict zones. On the basis of these guidelines we requested information from companies operating in phosphate extraction in Western Sahara. We also visited Sudan to assess the applicability of the guidelines and make specific recommendations to companies with regard to transparency on safety and communication with stakeholders.

## Conference

Jointly with the Institutional Investors Group on Climate Change, PGGM organised a conference in Brussels at which we engaged in discussions with European Commission policymakers. Our aim is to create a policy ensuring that climate-friendly investments are at least as attractive as those which have an impact on the climate. To this end we made a number of recommendations to the Commission.

## Social

Discussions with the US supermarket chain Wal-Mart led to the appointment of a board committee in 2010 to oversee social issues such as diversity and dealing with trade unions.

We also called on Schlumberger, a US provider of services for the oil and gas industry, to apply a standard to help companies guarantee the safety of their operations while respecting human rights. An umbrella consortium is now using this as a standard part of its training courses for safety personnel.

## Environment

We talked to Shell about oil spills in Nigeria and the payment of bribes by a Shell subcontractor. Plans to exploit tar sands outside Canada prompted us to raise critical questions with the companies concerned. We also repeated our calls on various companies to practise greater openness with regard to greenhouse gas emissions so that investors gain a better insight into the risks they are incurring.

## Corporate governance

In the corporate governance field we focused particularly on the exercising of voting rights and on best practices in the Netherlands, the United States and Asia. In the United States, directors are often appointed on the basis of one vote in favour. We believe this practice should be replaced by appointment on a majority of votes. Following a discussion with us on this subject, the auction house Sotheby's announced that it would argue in favour of such a change at the next shareholders' meeting. We also persuaded the ING Trust Office to hold an annual meeting of holders of depositary receipts in future. This will give holders a greater say, since the Trust Office will take more account of their views when voting takes place. PGGM believes that the common practice whereby voting at shareholders' meetings takes place by acclamation is undesirable because it departs from the principle of 'one share – one vote'. We raised this matter with Taiwan Semiconductor Manufacturing Company. The outcome was successful, since all votes were counted in respect of each agenda item at the subsequent shareholders' meeting.

## Food and medicine

With regard to health, we focused on the food and pharmaceutical industries in 2010. PGGM is working hard to secure wider access to medicine, particularly in developing countries. For example, we played a part in creating the Access to Medicine Index 2010, which compares initiatives taken by pharmaceutical companies to promote access to medicine. We also initiated a dialogue with the food industry on the subject of obesity. We called on companies in this sector to explain their own role and risks with regard to obesity.

## Legal proceedings

PGGM conducts legal proceedings on behalf of its clients in order to recover damages or enforce good entrepreneurship. A judgement by the Supreme Court of the United States in 2010 curtailed the right of foreign investors to claim damages and/or bring about improvements in corporate governance by means of class actions in the United States. A class action is a lawsuit in which a large group of people lodge a collective claim with the court through a representative. PGGM is naturally endeavouring to rectify this inequality. We are also taking further action against Bank of America as the lead plaintiff on behalf of misled investors in a case concerning enormous losses suffered by investors due to alleged deception surrounding the acquisition of Merrill Lynch. The total proceeds of class actions rose from €16.6 million in 2009 to €19.1 million in 2010.

## Exclusions

The investments we make on behalf of our clients must suit our identity and that of our clients. Therefore we do not invest in controversial weapons (including nuclear weapons, cluster munitions and landmines), nor in companies which fundamentally violate human or labour rights without the prospect of dialogue. As a result of this policy, 38 companies were on our exclusions list at the end of last year, including 33 due to weapons and five due to human rights. Five government bonds are also excluded. As in 2009, our exclusions policy covers 98% of assets under management.

## Outlook for 2011

Responsible investment is a continuous process that is being constantly improved. Because PGGM wishes to play a proactive role in the field of responsible investment:

- we are continuing to integrate ESG factors in our investment decisions,
- we are completing our research into the social added value of targeted ESG investments,
- we are looking critically at sectors with high ESG risks,
- we are prioritising our engagement projects and
- evaluating our engagement strategy and activities.





# Cases

## Recognition in 2010

At the TBLI Conference, PGGM won the international 'ESG Leaders Award' as the best ESG asset manager. Pensioenfonds Zorg en Welzijn was declared the best pension fund for the fourth consecutive time in the responsible investment benchmark study conducted by VBDO, the Dutch Association of Investors for Sustainable Development. Pensioenfonds voor de Architectenbureaus rose to tenth place in the same survey. PGGM carries out the asset management and conducts the responsible investment policy for both pension funds.

## Dialogue with Shell

PGGM is conducting an intensive dialogue with Shell concerning Nigeria. We have expressed our concerns about human rights, the consequences of oil spills for the local population and the safety of employees. Among other things, PGGM wants Shell to practise greater openness with regard to oil spills, the consequences for the environment and the local population, and with regard to its clean-up and compensation plans. We also want gas flaring to be discontinued as soon as possible. We have urged Shell to continue the dialogue with the authorities on human rights and environmental issues and to pressure the Nigerian government to be open about its revenues from oil extraction. PGGM believes progress is being made in the dialogue with Shell and in its activities, but also believes there are sufficient grounds to continue the dialogue.

## Microfinance guidelines

PGGM took the initiative jointly with Princess Máxima – in her role as UN special ambassador for microfinance – and four fund managers to draw up the 'Principles for Investors in Inclusive Finance', providing guidelines on responsible investment in microfinance. These state that investors in microfinance and fund managers must have a central concern for the long-term interests of the end-customer. The guidelines were signed by 40 asset managers and investors at a special conference in January 2011.

## Research into social returns

We use targeted ESG investments to achieve or promote a specific social return in addition to a financial return. It is nevertheless difficult to show what social return is being achieved. We have therefore worked with Erasmus University in Rotterdam to develop a methodology to reveal the social added value that targeted ESG investments actually deliver. Forecasting the social return on a specific investment is still an academic exercise, but more specific data will also provide greater insight into the social return achieved. That will enable us to focus more on investments which actually generate a social return.

### **Offshore wind energy**

PGGM has acquired an interest in the UK's Walney offshore wind park jointly with Ampere Equity Fund. PGGM is working on this project jointly with the owner DONG Energy, the global leader in offshore wind parks. Walney is expected to cost £1 billion and is due to enter service at the end of 2011. The wind park comprises 102 turbines with a total capacity of 367 MW, sufficient to provide energy for 320,000 homes.

### **Accidents threaten continued existence of BP**

The oil group British Petroleum (BP) was the subject of negative news coverage for several months in 2010 due to the explosion on a drilling platform in the Gulf of Mexico. This not only cost the lives of 11 workers but also caused an unprecedented environmental disaster with major consequences for the local fishing and tourist industries.

The consequences of the disaster posed a serious threat to BP's continued existence and caused an estimated loss of €30 billion. The explosion and previous major accidents revealed serious shortcomings in BP's safety culture, both at board level and on the shop floor. PGGM spoke to BP several times last year about its safety policy. The oil group responded by appointing a safety expert to the responsible board committee and improving safety systems. Following discussions in November we concluded that the right steps had been taken but that more action was required. We firmly believe that BP must

further investigate and improve the role of safety in management throughout the company and within its strategic choices in order to become a leader in the field of safety. PGGM sees this as key to BP's long-term existence.

### **Exclusion of mining company in India**

In mid-2010 we placed Vedanta Resources plc on the exclusions list due to the lack of improvement in its respect for human rights. This decision followed an increasingly intensive dialogue with the company concerning social conditions and environmental problems relating to its mining activities in the Indian state of Orissa. Vedanta plans to extract resources from a mountain that is sacred to the local Dongria Kondh tribe and has already built a refinery at the foot of the mountain. It says that the refinery and the mine will benefit the region, but makes no mention of the consequences for the environment and the local population. Vedanta also showed no improvements with regard to human rights and environmental care. In view of the additional risk of reputational damage and possible financial risks, we decided to add Vedanta and three subsidiaries to the exclusions list.

## RESPONSIBLE INVESTMENT RESULTS (AT YEAR-END)

	2009	2010
<b>ESG integration</b>		
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%	56%
<b>Targeted ESG investments</b>		
Commitments (€ million)	€2,551	€3,711
% of total assets under management	3.0%	3.6%
<b>Voting</b>		
Number of meetings at which votes were cast	4,678	4,722
Number of votes cast	40,819	42,186
Number of AGMs at which votes were cast as % of total number of AGMs	99%	99%
Number of AGMs at which votes were cast as % of Voting Focus List	99%	100%
<b>Engagement</b>		
Number of companies engaged with indirectly (through F&C)	495	574
Number of companies engaged with directly	48	72
Value of companies engaged with as % of managed equity portfolio	48%	51%
<b>Legal proceedings</b>		
Active proceedings	3	3
Proceeds of class actions (€ million)	€6,575	€2,771
<b>Exclusions</b>		
Number of excluded companies	33	38
Assets under management covered by exclusions policy	98%	98%
Exclusions as proportion of FTSE All World benchmark	1.2%	1.2%



## Colophon

This summary of the Annual Responsible Investment Report 2010 is published by PGGM. The full annual report can be read on our website or obtained from the Responsible Investment Department.

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