Private Equity

Annual Responsible Investment Report

2022

PGGM

About PGGM Investments

PGGM Investment Management provides fiduciary management and asset management services to Dutch pension funds. As the administrator for investment funds and the asset manager for pension funds, PGGM supports its clients in their duty of providing a stable and high-quality pension for their participants, now and in the future.

Introduction

PGGM Investments is committed to investing responsibly. We manage our clients' private equity investments in order to contribute towards a stable pension for their participants while also taking into consideration the impact we are having on the world around us. We recognize that environmental, social, and governance (ESG) factors have a material impact on the financial performance of the private equity portfolio, both through the identification of value creation opportunities and through the mitigation of identified risks. Furthermore, we have set ambitions to invest in companies that contribute to the UN SDGs, which we call Sustainable Development Investments (SDIs).

We are pleased to present PGGM's fifth Private Equity Responsible Investment Report, which highlights our ongoing commitment to responsible investment. In this report, we focus on (i) updating you on the ESG characteristics of our portfolio, including the fourth year of investing our private equity impact sleeve, and (ii) informing you on what we have accomplished related to ESG and SDI investments in 2022.

The PE team is committed to continuously improving and refining its ESG processes around investing, monitoring, and reporting to ensure that PGGM remains a best-in-class responsible investor, providing a model for other stakeholders in the industry. Likewise, it is committed to driving continuous improvement of its GPs' processes.

"In 2022, we worked on the implementation of the Sustainable Finance Disclosure Regulation (SFDR) level 2 requirements per January 1, 2023. The investment process of the PE pension products ensure promotion of environmental and social characteristics and were thus classified as Article 8 SFDR."

Karin Bouwmeester, *Sustainability & ESG Expert*

KPIs for PE in 2022

- **16.9%** average net return over the past 10 years
- **90%** of capital invested with GPs that score either “High” or “Very High” on our ESG Integration Assessment
- **94%** of our go-forward GPs (i.e. GPs where we committed to their last fund) report on ESG on either an annual or quarterly basis
- **83%** of the GPs in our portfolio provided input on our request to submit data for the ESG Data Convergence Initiative on a portfolio company level

Highlights for PE in 2022

- **Actively supported** the ESG Data Convergence Initiative, which aims to standardize ESG disclosure metrics, initially as a founding member and subsequently as a member of the Steering Committee
- **Engaged** with 48 of 65 go-forward GPs in our portfolio – we saw improvements in the ESG Integration scores with 27 of them
- **We saw a step up** in the number of GPs that committed to become a UNPRI signatory. From 50 to 54 of our 65 go-forward GPs, which represents 83%
- **40 GPs** report on portfolio company ESG KPIs in their annual report.
- **In 2022** we have committed €210 million from the private equity sleeve that focuses on SDIs. 3 fund commitments and 4 co-investments were added
- **Conducted ESG trainings** for the entire PE team on climate change and science based targets.

1 The level of completeness varies from GP to GP

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1. Responsible Investment at PGGM and in PE

PGGM'sinvestment management teams are responsible for integrating ESG into their processes. Responsible investment is fully integrated into all teams and internalised as part of their daily activities.

PGGM's PE team has full responsibility to analyse and integrate ESG considerations in their investment process. The Risk department has taken up the role of "challenger" in deal teams and the RI team serves as a knowledge center for both teams.

In the PE team, all investment professionals are actively involved with ESG. ESG analysis is included in the preliminary and the final investment proposal for the consideration of the relevant investment committees. Every year, the RI and the PE team set mutual goals for next steps regarding responsible investing. ESG targets are included in the compensation targets of the whole private equity team.

2022 was an eventful year with the war starting in Ukraine, escalating energy prices, and rising inflation and interest rates. We are very pleased with the first set of GPs that have set Science Based Targets for their portfolio companies on our way to a fully Paris aligned portfolio. Although we see an uptick datapoints received with respect to the ESG Data Convergence Initiative, we would have expected a better coverage on emissions data

2022 Goals/Ambitions	2022 Results
Set a plan to be aligned with the Paris Agreement.	By 2040 all investments need to be Paris aligned, which will imply that by 2030 GPs that we commit to should be committed to reach net zero by 2050.
Better quality and quantity GHG emissions data for our total portfolio.	Both absolute and relative scope 1 and 2 emission data has improved.
Increasing transparency about the adverse impacts directly and indirectly linked to our investment portfolio	Overall coverage of EDCI has increased, although response rate was still relatively low, with only 34 (out of 97) GPs having data coverage over 50%. On SFDR data, 42 GPs have PAI data coverage over 25%.
Strengthen our SDG strategy by increasing SDIs and measuring the impact.	Increased the exposure through 3 new fund commitments and 4 co-investments. Second annual impact report for SDI investments will be delivered later in the year.

Private Equity team as per June 2023

Head of PE & Directors

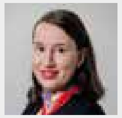

Diane Griffioen
Head of Private Equity


Harrie van Rijbroek
Senior Director


Maurice Klaver
Senior Director (SDIs)

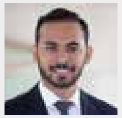

Berend Schiphorst
Senior Director


Wouter van der Geest
Senior Director


Irina Manea
Senior Director

Directors


Diederick Plasmans
Director


Talha Zafar
Director


Michael Bos
Associate Director (SDIs)


Gust van der Meeren
Associate Director

Investment Managers


Krishan Bridjmohan
Investment Manager


Albert Smit
Investment Manager


Mark Al
Investment Manager


Daniël Zwier
Investment Manager

Associates


Rita Nguyen
Associate


Jocelyn Yang
Associate


Veniamin Ciubotaru
Associate


Ester Nafee
Associate (SDIs)

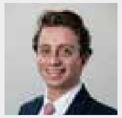

Garima Sharma
Associate

Analysts


Remco Brouwer
Analyst


Remco Brouwer
Analyst


Michiel Colijn
Analyst


Michiel de Witte
Analyst


Rutger Dekker
Analyst (SDIs)

Direct Support


Laura Hoogstraten
Mid office


Serhat Karaduman
Mid office


Bo Furman
Executive Assistant

Sustainability & ESG Expert


Karin Bouwmeester
Sustainability & ESG Expert

As per June 2023

29	8	33%	33
professionals	nationalities	women in the team	average age

	2019	2020	2021	2022
% of women senior investment team	29%	38%	29%	33%
% of women investment team	33%	32%	27%	32%
# in senior investment team	7	8	7	2
# in team	21	22	26	8

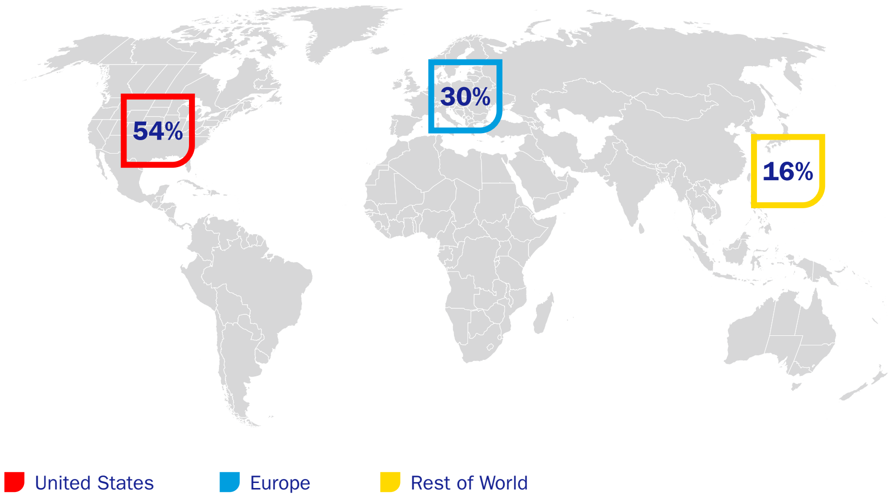
- Since the last report, we have hired one investment manager, one Sustainability and ESG Expert and one associate and one analyst. During this time in total 4 investment professionals have left the team.
- We plan to hire one additional investment manager, one associate and one ESG data analyst.

We are delighted to have appointed Karin Bouwmeester as Sustainability and ESG Expert in the PE team in March 2023. She is working in the financial sector since 2006 and sustainability has always been integrated in her daily work. First at the Dutch and French developments banks, FMO and Proparco. Thereafter at ABN AMRO Private Banking. Supported by the PE team and Responsible Investment team she will further enhance the ESG framework and ESG engagements with GPs.

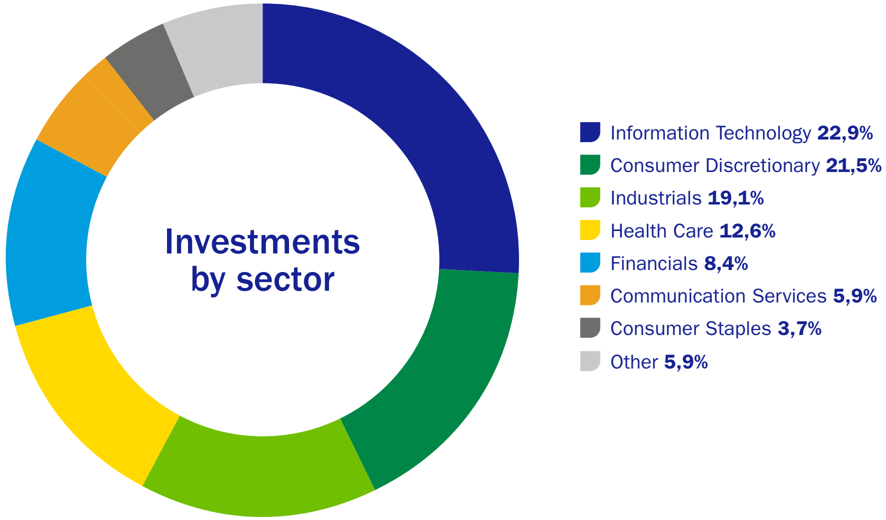
2. Our portfolio at a glance

PGGM PE had a total of €23.2 billion in assets under management as of 31 December 2022. Our objective is to outperform the public markets by 2.5%, which we have exceeded historically. We have achieved a 10-year average return of 16.9%.

The PE portfolio is well diversified. While our mandate is global, the majority (90%) of investments are with investors in developed countries, primarily the US and Western Europe, with a focus on buyout strategies.



The underlying investments in the portfolio are broadly diversified across sectors with significant exposure to IT, Consumer Discretionary, Health Care, Financials and Industrials. Note that we are in-principle sector agnostic.



PGGM was an early investor in private equity, starting in 1983. From 2000 until 2010, it outsourced its private equity investing to AlpInvest. Since 2010, it has built up in-house expertise via an internal PE team. The rest of this report focuses on the portfolio that the PGGM PE team has built since 2010, representing 80% of the total PE portfolio.

As of 31 December 2022, PGGM PE's portfolio consists of 88 individual GPs as well as 187 primary fund investments, 96 co-investments, and 11 secondary fund investments. In 2022, PGGM PE made 19 primary fund commitments and 13 co-investments.

3. Our approach to ESG

PGGM PE has integrated ESG considerations into its investment and portfolio management process and strategy. The ESG integration process is organized around the different investment stages: selection, commitment, ownership.

Our activities are guided by our clients' policies and PGGM's Guidelines for Responsible Investment in Private Equity. We strive to incorporate these into the legal documentation with our GPs where possible. We are effecting a shift from a focus on compliance to an increasingly active approach in which investments continue to support the present and future financial security and well-being of pension beneficiaries, but just as importantly help sustain a good and livable world for the future.

We also encourage our GPs to better understand which ESG factors are material for the investments. We consider a factor material when it (i) significantly impacts the financial performance of the investment or (ii) has other potential negative impacts to society and the environment which may jeopardize the business' reputation and license to operate. In the following chapters, we will go into greater detail on what we do in the different investment stages (as set out in the Figure).

PGGM PE was awarded with 4 out of 5 stars in the latest UNPRI assessment report (2021) for our approach to ESG strategy and governance.

3. Our approach to ESG

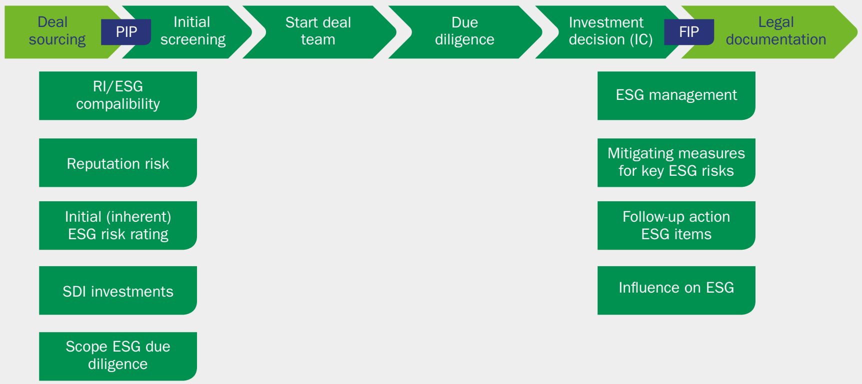
Selection (Ch. 4)	Commitment (Ch. 5)	Ownership (Ch. 6)
- Due diligence for funds using GP ESG Integration Assessment - Due diligence for co-investment using SASB - Look at sector and country ESG risk	- Include adherence to PE ESG and Exclusion Guidelines in the side letter - Include ESG action plan and reporting according to PGGM's reporting template, which includes ESG incident reporting, in the side letter	- Monitoring improvements at GPs and ESG incidents at portfolio companies - Engage with each active GP on an annual basis on their ESG approach and our ESG expectations Following the invasion of the Ukraine by Russia we expanded our exclusion policy to include investments in Russia and Belarus - In 2022 we have expanded our exclusion policy to include investments in companies that derive more than 25% of its revenue from: - The exploration, extraction or mining, production, refining, processing, storage or transportation of fossil fuels - Materials, goods or services primarily engaged to the exploration, extraction or mining, production, refining, processing, storage or transportation of fossil fuels - Unless such revenue is derived from the storage or transportation of natural gas - Or such company has committed to realize net zero emissions by 2050 and has a verifiable strategy and timeline

4. The selection stage: screening and due diligence

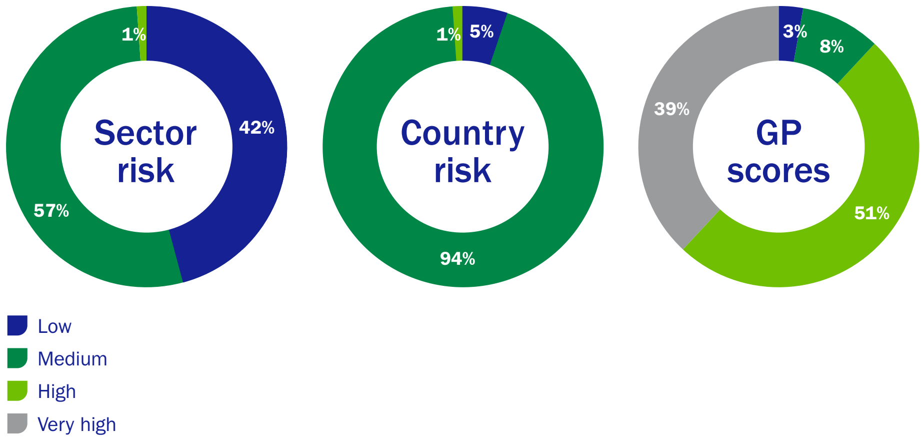
In the selection stage, as part of our broader selection process, we assess whether our investment partners will treat ESG risks and opportunities appropriately and in line with our responsible investment strategies and beliefs. The PGGM PE team wants to achieve strong returns with partners who are committed to and focused on investing responsibly, and are willing to keep improving their approach to ESG.

4.1 ESG sector and country risk

The PGGM PE team uses data from external data providers, such as MSCI and Sustainalytics, to determine the sector and country risks within the underlying companies in a GP's portfolio. This gives us primary insights into the ESG risks in the underlying portfolio companies. We are comfortable investing in higher risk countries and sectors as long as we partner with GPs that can effectively manage these risks, which we analyse through our ESG Integration Assessment (see next section).



PIP = preliminary investment proposal; FIP = final investment proposal



“By way of example, we have a GP in our portfolio that is a clear frontrunner in in terms of ESG based on, among others, the following activities. For the past 15 years, the GP has developed an extensive ESG programme with strong internal C-suite support and a large internal ESG team. It participates in many ESG industry initiatives, initiaties forum discussions, and shares best practices among peers. It has an extensive ESG engagement program and publicly available policy since 2016 already. The GP integrates ESG criteria throughout its investment process and offers tailored sustainability roadmaps to >100 portfolio companies. It is developing a robust climate action plan, aiming to measure scope 1, 2, and 3 emissions for 100% of its PE portfolio by the end of this year (and already measured it for the vast majority of its portfolio last year). In addition, it will conduct climate risk assessments and actively engage with portfolio companies and industry collaborations on these. Furthermore, it has committed to being Paris-aligned (i.e. net zero emissions) by 2050 and is developing plans to achieve this.”

Rita Nguyen
Associate

4.2 GP assessment

During the due diligence phase, the PGGM PE deal team will use the ESG Integration Assessment to analyse a GP’s ability to effectively manage ESG risk and opportunities. The ESG Integration Assessment has seven items, drawing from the UN PRI’s Due Diligence Questionnaire, relating to ESG policy and responsibility at the GP; involvement in industry initiatives (e.g. UNPRI and EDCI); ESG integration in day-to-day activities, with specific sub-questions about their approach to climate change and diversity, equity, and inclusion; ESG monitoring; and ESG reporting. These items are scored between 1 (worst) and 5 (best) and aggregated for a comprehensive look on a GP’s ability to effectively manage ESG risks and opportunities. The PGGM PE team uses GPs’ score in the ESG Integration Assessment in the selection stage as well as in the ownership stage.

The scoring of GPs through the ESG Integration Assessment is included in the preliminary and final investment proposals, the document upon which the relevant investment committee takes a decision on whether or not to make a commitment. During the selection stage, the PGGM PE deal team, challenged by the Risk team and supported by the Responsible Investments team when necessary, consider the ESG risks and opportunities of each investment. The PGGM PE investment committee is committed to showing an improvement in ESG implementation within the portfolio over time. We are willing to invest with GPs with lower scores in their ESG Integration Assessment if they are committed to improve over time.

5. The commitment stage

PGGM PE generally looks for GPs who demonstrate a willingness and commitment to improve on their approach towards ESG over time. We also require that (i) we are excluded from companies investing in certain areas, including weapons and tobacco, and (ii) the GP reports on ESG incidents as soon as practicable and on ESG more broadly annually.

Language is included in the legal documentation with the GP which ensures that PGGM PE will not be invested in companies engaged in the production or sale of controversial weapons, tobacco manufacturing, or companies which violate the UN Global Compact Principles with respect to human rights. As of 2021, this was expanded to investments in thermal coal and tar sands utilities and mining companies as well as companies that very severely violate the OECD Guidelines for Multinational Enterprises and/or the UN Global Compact Principles in general. In addition, we look to include language stating that the GP agrees to incorporate ESG criteria in their investment process in line with the UN-backed Principles for Responsible Investment.

During 2022 investment in Russia and Belarus were added to the exclusion list. Our exposure to portfolio companies in these countries has been restructured with the aim to sell, but this has not been fully finalized yet.

We also ask our GPs to report on ESG incidents, such as accidents with severe physical injury, major environmental pollution, or legally established misappropriation of funds, in order to manage potential reputational risk and ensure that the GPs will follow up on these.

In 2015, together with AlpInvest Partners, APG, and MN, we developed a template to promote standardised ESG reporting for private equity investments. The intention of this template is to help PGGM PE understand and monitor the ESG implementation process at the fund and portfolio company level. The template can also be used for co-investments.

Requirements regarding reporting have been incorporated into the legal documentation with GPs since 2015. We continue to focus on encouraging our GPs to report on company level KPIs for their portfolio. The number of our GPs doing so represents 51%[1] of our go-forward relationship GPs. We hope a continued focus on reporting will drive further improvements across the industry.

This year has been the 2nd year that we have asked our GPs to report to us on the metrics of the ESG Data Convergence Initiative. The response rate has increased with 80 GPs providing data compared to 62 in 2021

As our Private Equity mandate is classified as article 8 under SFDR, we will need to report on an annual basis on our portfolio's E&S characteristics. 2022 was the first year we were obliged to do so. We reach out to all our GPs to provide us with the necessary data and expect data coverage to increase over the years.

1 Reported on ESG KPIs via the annual ESG report or PGGM template

During the ownership stage, PGGM PE closely monitors GPs' ongoing ability to effectively manage ESG risks and opportunities and engages annually with them to encourage further improvements.

6.1 Monitoring

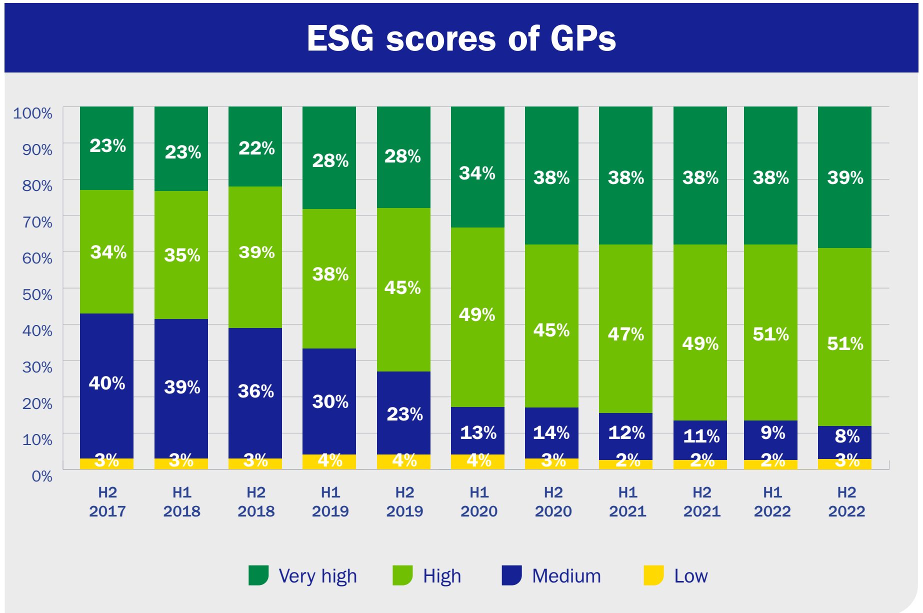
The PE team monitors GPs' ongoing ESG practices using the ESG Integration Assessment, which are covered in a separate annual monitoring meeting. In addition, material ESG incidents in the portfolio (either at the GPs or their portfolio companies) are discussed in our weekly team meetings when necessary.

Since 2021, We are using the RepRisk ESG Risk Platform as part of our monitoring process. This tooling allows us to monitor ESG risks in the portfolio on a daily basis via customised watchlists and alert services as well as conduct more in-depth research on any ESG risks that may materialise.

6.2 Engagement

The GP ESG Integration Assessment and the identified ESG country and sector risks are helpful in both the selection and ownership stages. These analyses provide us with a good context to engage with our GPs with respect to further improvements in their ESG practices.

The PE team targets to engage annually with every GP in our portfolio where we have committed to their last fund. We generally spread this out through the year to engage with roughly a quarter of those GPs every three months. Our engagement process typically involves desk research on the GP's latest ESG materials and a call or meeting with the GP to get an update on any ESG-related developments, share best practices from within our portfolios, and discuss ways for them to continue improving their ESG practices. In 2022, we pro-actively engaged with 48 GPs (74% of our go-forward GPs) and we were pleased that 27 (56%) of them showed improvement.



Over time, the GP Integration Assessment scores in PGGM PE's portfolio have improved. This reflects the continued evolution of the private equity industry as well as our active engagement with GPs for a stronger focus on ESG in their activities.Over time, the GP Integration Assessment scores in PGGM PE's portfolio have improved. This reflects the continued evolution of the private equity industry as well as our active engagement with GPs to lobby for a stronger focus on ESG in portfolio companies. All GPs scoring "Very low" are either no longer in the portfolio or have improved their performance, and the best performers, those ranking "Very high" or "High" have grown from 73% as of the end of 2019 to 88% as of the end of 2021.

2 The level of completeness varies substantially among GPs

While not all GPs in the PE portfolio are UNPRI signatories, their share has been steadily increasing over the past years. In 2022, we saw an increase in the number of signatories – 54 (83% of our go forward GPs) are now signatories as compared to 50 (75%) a year ago. We continuously encourage GPs to join the UNPRI and other relevant industry initiatives.

6.3 Reporting

PGGM also engages with the market in order to improve ESG practices, including reporting. At the moment, 95% of our go-forward GPs report on ESG, although at different frequencies and levels of detail.

In 2021, we helped found the ESG Data Convergence Initiative, the first partnership between private equity firms (GPs) and its investors (LPs), and continue to be a member of its Steering Committee today. This project aims to standardize ESG reporting metrics, including Scope 1 and 2 greenhouse gas (GHG) emissions, renewable energy usage, board diversity, work-related injuries, net new hires, and employee engagement. This will help us to achieve our clients' climate ambitions and it supports our best effort to comply with European sustainability disclosure regulation.

In 2022, we again asked our GPs to report at portfolio company level on ESG KPIs on GHG emissions and gender diversity, to which we added the KPIs from the ESG Data Convergence Initiative (e.g. renewable energy consumption, health and safety, net hires and employee engagement).

We are pleased to see that our GPs reporting on portfolio company-level KPIs increased from 24% in 2019 to 42% in 2022[3]. As ESG awareness becomes increasingly widespread, we expect this trend to continue with even more GPs providing more detailed ESG reports in the coming years.

At the moment, 79% of our go-forward GPs report on ESG, although at different frequencies and levels of detail.

As one of the organizations which helped found the UN PRI, PGGM has been a signatory and active participant since 2006. PGGM PE has also been a formal member of ILPA since 2010 and its Diversity In Action initiative since 2019. We helped found the EDCI and currently serve on its Steering Committee. Lastly, PGGM is also a part of the trade association Invest Europe.

6.4 Material ESG Incidents

While PGGM tries to protect its investments and clients from ESG related risks, incidents nevertheless occur occasionally. Following a material ESG incident, the PGGM PE team is focused on how the GP and/or portfolio company manage and resolve the situation. In 2022, we logged six material incidents and we are still monitoring the situation for all of these incidents.

3 Report ESG KPIs at company level via the annual ESG report or the PGGM template and at different levels of completeness.

"Last year, one of our GPs reported on a fatal accident at one of their portfolio companies. The portfolio company in question was active in traffic management and one of its employees passed away as a result of a traffic accident. The employee was seated in a vehicle within a safe-designated area, in accordance with company's safety policies and measures, when their vehicle was hit by a car that did not respect the safe-designated area. The GP have ensured the incident is properly investigated, monitored its proper handling, and recently confirmed the company had no liability for the fatal accident."

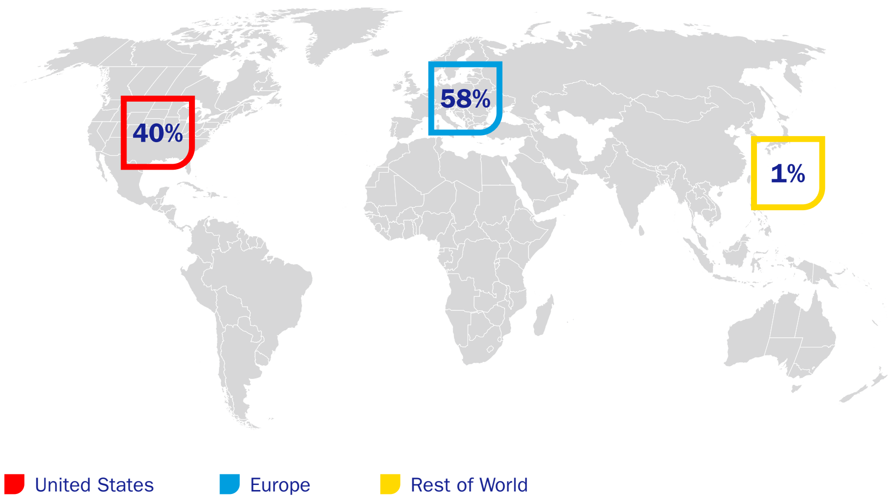
Gust van der Meeren
Associate Director

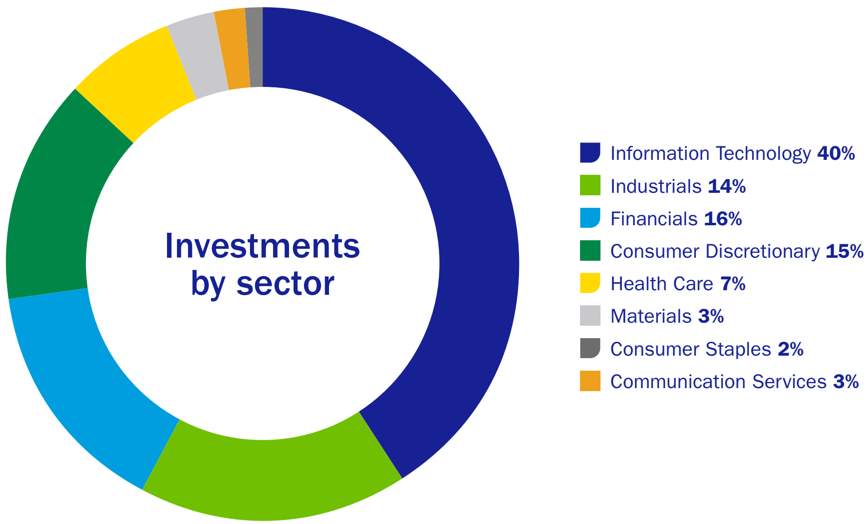
7. ESG in our Co-investments

In addition to the GPs in the PE portfolio, PGGM has to date completed 96 co-investments of which 76 are unrealized. Of these, the vast majority is headquartered in the US and Europe, only four investments have thus far been in emerging markets. A breakdown of investments by sector can be seen below, with the most significant being Financials.

As co-investors in a portfolio company, PGGM PE is closer to the company and so may exert more influence with regards to ESG than might be the case regarding a portfolio company in a fund investment. We engage on ESG for co-investments through regular update calls with the GP and by requesting reporting on specific ESG KPIs.

Co-investments which contribute towards reducing food waste, water scarcity, or the development of life-saving medications are designated as Sustainable Development Investments ("SDI"). For these, we request that the GP tracks, and reports its impact metrics over the life of such investments.





Our co-investment in SSI Diagnostics ("SSID") alongside Adelis is a good example of a sustainable development investment.

The company offers quality control solutions for vaccine manufacturers and screening/testing solutions for infectious diseases and tropical diseases. The company serves laboratories, government health organizations, vaccine manufacturers and hospitals and has a global reach. Adelis' impact thesis was driven by (1) expansion of offerings platform by introducing complimentary product lines and (2) expanding the geographic focus to provide broader access to testing an diagnostics.

Through its operations, SSID addresses multiple issues in the global healthcare market which allows them to generate significant impact. The company is mainly active in two segments: diagnostic operations and disease prevention.

Through its diagnostics operations, SSID is able to provide key testing solutions to patients, GP offices, clinics and hospitals. SSID offers rapid, precision and self-testing solutions. The company has a global footprint, but has recently been focusing on emerging markets and areas that have limited medical infrastructure.

By providing faster and more efficient testing solutions, SSDI ensures ease of access to diagnostic tools for patients, particularly for patients in rural areas or where financial or physical access to healthcare is limited. In addition, SSDI maintains a strong focus on low prices to ensure that its products remain competitive and accessible to the entire patient pool. Furthermore, by providing more rapid and efficient solutions, SSDI positively impacts the already constrained medical workforce by limiting the number of interactions necessary between medical professional and patient while also decreasing the length of the average waiting time.

In addition, SSID's market presence provides an increased awareness around illnesses and testing possibilities limiting the risk of transmission of specific diseases while also allowing patients to access immediate treatment, which in turn limits the financial burden of both patient and healthcare system.

Through its disease prevention division, SSID supports vaccines manufacturers in their quality control processes, which helps bringing new vaccines to market while maintaining a strong focus on quality, which is particularly key in case of fast spreading epidemics.

SSID played a key role in the COVID-19 pandemic by providing rapid testing solutions to hospitals and clinics worldwide, with a more recent focus on emerging markets which continue to lack the right testing infrastructure. Today SSID's OnSite is one out of five WHO approved rapid testing solutions.

8. Sustainable Development Investments

Our largest client, PFZW, has set an ambitious target to invest 30% of its AuM in investments that contribute to the UN SDG goals by 2030. 20% or €46.1 billion has been invested for PFZW in such investments as per the end of 2022. The PE team contributes towards achieving this goal.

8.1 Our Focus Areas

SDIs are clearly defined investments that not only contribute to the portfolio's financial return, but are also intended to generate societal added value. With the ambition of PFZW to invest 30% of their AuM in investments that contribute to the UN Sustainable Development Goals (SDGs) by 2030, we have adjusted our scope accordingly.

We used to focus on investments that provide solutions to four themes i.e. climate change, water scarcity, healthcare, and food security. The four themes represented 5 SDGs (SDG 2 – food, 3 – health, 6 – water, 7 – affordable and clean energy and 12 – responsible consumption and production). PFZW has chosen to add 2 SDGs to their core focus areas (SDG 11 – sustainable real estate and SDG 13 – climate action).

These problems not only constitute threats to society, they also translate into financial risks for companies and investors. At the same time, contributing to solutions to these issues represents a financial opportunity for investors.

Each year we calculate the impact of these investments over the previous year: in addition to the financial return, we indicate how these investments contributed to the selected themes. We use impact data reported by companies and impact data based on impact models for this purpose[4]. In this calculation, we only allocate the share of the total impact to us that matches our share in the company or the fund. For a more detailed explanation of how the impact is calculated, please visit our website[5]. During 2022, there were three new fund commitments and four co-investments done by the SDG team and one co-investment by the broader PE team (see SSID on previous page) that contributed to an increased allocation to SDG investments in the PE portfolio.

4 The increase in the impact reported by us in comparison to last year cannot be linked one-on-one to the improved performance of the companies in the portfolio. Part of this increase is due to the increased availability of impact data: the data coverage has increased.
5 Our clients do not have a target for the impact to be achieved.

In 2022, we committed €40m to Gilde Healthcare Services Fund IV. Gilde is a private equity fund focused on the healthcare sector in North-western Europe. Their goal is to enhance the lives of patients and healthcare providers by focusing on quality of care, affordability and accessibility. Gilde has been improving its ESG policy and practices and intends to increase their focus on impact going forward.

8.2 Our contribution to the SDGs

In 2022, we analysed for the 5th time which of the investments on behalf of our clients contribute to the 17 UN SDGs. We estimated that by the end of 2022, PE had invested €1.6 billion (FMV) in companies that contribute to at least one of the SDGs. This is 6.8% of the total FMV within the portfolio.

Please see the taxonomies we used to determine whether an investment contributes to an SDG: SDI taxonomies and guidance 2022. We developed this together with APG in order to have more comparable results. While the SDI taxonomy leaves room for different interpretations, we are keen to further align impact standards with our peers via the Asset Owner Platform for Sustainable Development Investments (SDI-AOP).

One of the biggest challenges is of course the lack of data. Most of the companies still do not report on how they contribute to sustainability and when they do they have different definitions. Another challenge is taking into account the potential and actual negative impact when counting something as having a positive impact.

Please read more about the SDIs and the challenges in the PGGM Integrated report 2022.

8.3 SDI team within private equity

To contribute towards the SDG ambitions goal, PGGM PE has started a private equity SDI team in 2019 with dedicated resources to source additional private equity opportunities that contribute to the SDGs. A central part of this initiative is to measure the impact of these investments. PGGM is cooperating with other large investors and investee companies to improve the quality of the data and the ability to measure the impact.

This team works full time on sourcing and executing investments in private equity funds that invest in companies that have a positive contribution to one or more of the mentioned SDGs. Next to fund investments, the team has a target to invest a significant amount of the allocated capital through co-investments. With this approach the additional costs of the strategy will be mitigated and it provides the opportunity to specifically build up exposure to individual companies that fit the core focus SDGs. PGGM had initially allocated €500 million to this private equity SDI allocation, but has decided to increase this to at least 5% of the private equity portfolio, which would imply an amount larger than €1 billion based on the exposure to PE at the end of 2022.

The SDG strategy focuses mostly on thematic funds. Most of the investments are smaller than the typical investment in our PE portfolio. The SDG investments can be a mix of venture, growth, and buyout strategies. This means more effort per invested euro, indicating a strong commitment to increase the investments in the SDG focus areas.

The investments in the private equity SDI allocation are part of the broader PE mandate and will need to stack up against the wider private equity portfolio in terms of risk-return profile. The private equity SDI scope is global, but the focus is initially on developed country managers. We are looking for GPs with a proven track record and have a preference for GPs with whom we can co-invest. First time funds are possible if the team members have convincing attributable private equity track records.

The minimum investment PGGM would like to commit to a fund is €25 million, which implies a minimum fund size of €100 million. For co-investments, we can commit a minimum of €5 million. Note that these minimum investment sizes apply only to Investing in SDG investments and are significantly smaller than for other PE investments.

With all our GPs we have an agreement that they will report on the impact they generate with the investments on an annual basis. The number of portfolio companies that have been in the SDG portfolio for the full year 2022 is limited with currently 61 companies, but we have received KPIs for all our fund and co-investments that we have held in our portfolio since 2019. However the quality and granularity of the impact data varies.

Some highlights include:

1) PSP VI: Food & Agriculture specialist, with a focus on increasing efficiency in both upstream and downstream processes while decreasing waste impact.
2) Gyrus II: Invests in the thematics of Healthcare and Sustainability, focusing on middle market companies that can be further professionalized by implementing new governance and growth initiatives. While small, the GP has been expanding its ESG initiatives.
3) Gilde IV: focuses on Healthcare solutions that benefit the Western European market, with its companies enabling better care at lower cost.
4) RoslinCT (GHO): As a Contract Development and Manufacturing Organization, RoslinCT is helping patients worldwide. Recently the company is helping a client developing a product for an uncurable disease that will transform the lives of 4.4m patients worldwide.
5) Sanquin Reagents (now Essange Reagents): developer and manufacturer of in-vitro diagnostics (IVD) reagents, which are key components of mission critical testing and diagnostics applications.

9. Climate change and diversity, equity & inclusion

In 2022, the PGGM PE team continued encouraging its GPs to take steps to measure and report on their GHG emissions as well as their diversity, equity, and inclusion (DEI) initiatives. We did this through our normal annual engagement meetings as well as by creating a new template with specific ESG KPIs for our GPs to share with us. These included:

- scope 1, 2, and 3 emissions data and other financial data so that we could make an estimate of the emissions attributable to PGGM
- gender diversity data at the GP level using ILPA's template
- gender diversity data for senior leadership and board level of portfolio companies

As a member of the ESG Data Convergence Initiative (EDCI) we request our GPs to provide the EDCI KPIs. In addition, this year we requested our GPs to provide SFDR data in compliance with the SFDR regulation. The data requested includes questions around fossil fuels exposure, use of renewable energy, emissions to water and gender pay gap.

Since early 2021, PGGM is a signatory to ILPA's Diversity in Action initiative in order to help build momentum around the advancement of DEI over time.

PFZW has set a goal to be net zero in 2050. Therefore we aim that by 2040 our portfolio companies are committed to become net zero in 2050. To realize this we are engaging with our GPs to encourage them to consider climate performance at their firm and their portfolio companies, starting with awareness and governance, then measuring and reporting, and finally target setting.

In total 80 out of 97 GPs have provided us with EDCI data of (a part) of their portfolio companies, of which 16 submitted their data after the by PGGM PE Team set deadline[6].

Emission and Energy Data

Overall coverage over our portfolio has increased by 14% compared to 2021 (1701 companies versus 1487 companies). Comparing the 2022 response rates to the response rates of 2021, the data coverage for:

- Scope 1 and 2 emissions has slightly increased to 29% (which stood at 27% for 2021).
- Scope 3 emissions has decreased from 15% to 12%
- Energy consumption and renewable energy consumption has slightly gone down from 30% to 26% and 23% to 20% respectively.

Nevertheless, keeping in mind the overall increase in companies that was reported on, overall portfolio coverage has increased for scope 3 emissions and (renewable) energy consumption as well.

Diversity Data

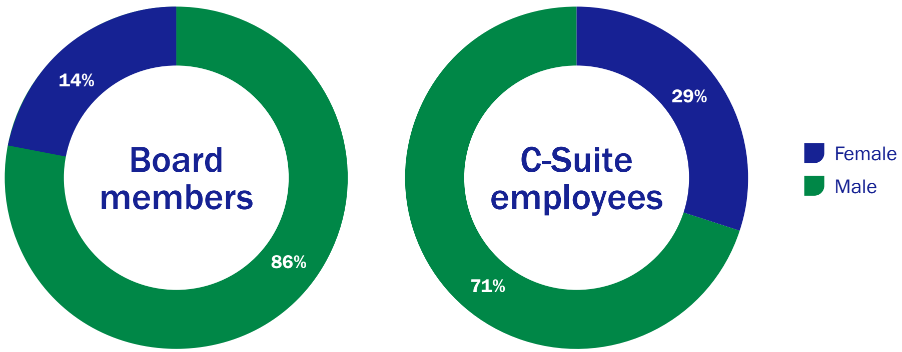
With regards to the *diversity* data at company level, relative as well as absolute data coverage has decreased, as the share of companies that reported on board diversity fell from 75% to 53%.

Based on the available data, the following statistics can be reported:

- Board members (**14% female** / **86% male**)
- C-suite employees[7] (**29%** / **71%**)

GP Diversity Data

All GPs that have reported, did report on gender diversity at their firms, increasing the number of total GPs providing GP diversity data from 62 last year to 80 this year.



Based on the available data[8], we can report the following diversity statistics:

- Firm and investment Leadership (**10% female** / **90% male**);
- Senior Investment Professionals (**23%** / **77%**);
- Other Investment Professionals (**35%** / **65%**);
- Operations / admin leadership (**40%** / **60%**);
- Other operations and admin professionals (**57%** / **43%**);
- All professionals (**42%** / **58%**)

The quality of the data is not yet reliable enough to report in a more granular manner at this stage.

We will continue to engage with our GPs to further increase the response rates. We expect to report in more granular form on the EDCI KPIs next year.

Exemplary Climate Change Approach

One of our GP's, which we view as a front runner in terms of climate change, incorporates their "carbon operating model" into each stage of their investment process. This includes their strategy, sourcing, diligence, and value creation. Pre-acquisition they develop a thesis around GHG emissions reduction potential. After acquisition, the GP engages directly with the portfolio companies to drive rigorous GHG emission management. As part of their value creation plan, they have a three step approach where they: (i) Engage third-party consultants for enhanced carbon analysis / model validation and onboard the portfolio company onto their ESG data management platform, (ii) Identify specialist consultant to conduct a life cycle analysis ("LCA") and conduct gap analysis of existing carbon footprint to establish LCA scope, and (iii) Perform a comprehensive annual review of the company's carbon profile and setting of GHG emission reduction targets, including net zero targets.

7 The datapoint covering diversity within the group of C-suite employees was not included in last year's analysis
8 Only GP diversity data of the 64 GPs that submitted in time have been taken into account

Exemplary DE&I Approach

Many GPs continue to push the boundaries to enhance their DE&I practices. Bain Capital is a clear example of this, the GP promoting DE&I initiatives both at fund and portfolio company level. On a firm level, Bain has broadened their recruitment focus to ensure access to a diverse candidate pool. To support inclusion, Bain has set up multiple employee resources groups, from LGBTQ+ networks to Multicultural networks. DE&I is also plan of Bain's approach to company ownership, with the GP assessing each company's needs, setting goals and creating accountability frameworks. In collaboration with North America Private Equity, Bain 'portfolio companies' top executives attended a CEO forum to brainstorm different opportunities to make an impact through DE&I initiatives. As an example, Rural Sourcing, a software development company that focuses on creating high quality technology while creating job opportunities in underserved areas has developed multiple initiatives. For instance, the company's DE&I ambition is to have a workforce that is representative of the cities in which they operate. For this purpose they have set up a DEI council and created additional Colleague Resource Groups focusing on underrepresented demographics, which are able to have an impact on recruitment and retainment policies. The company has 92% employee satisfaction across its 900 software developers in small and mid-sized areas across the US.

10. Outlook

There will always be opportunities to further improve ESG integration in investing, monitoring, and reporting. We are therefore committed to continuously improving and refining this process to ensure that PGGM remains a best-in-class responsible investor. In addition, we continue to engage with our GPs to drive further improvement on ESG integration at their firms and portfolio companies. We strive to make investments that continue to support the present and future financial security and well-being of pension beneficiaries, but just as importantly contribute to ensuring that tomorrow's world and society is one in which these beneficiaries will want to live. To achieve this, we will continue encouraging all our GPs to take steps to measure, report, and improve on their ESG performance, particularly on their GHG emissions as well as their diversity, equity, and inclusion initiatives.

As a founding member and member of the steering committee of the ESG Data Convergence Initiative we strive for comparable, meaningful and performance-based data. The initiative was only launched in 2021, but more than 300 GPs and LPs are now a member. In the end, the initiative should allow for comparison and benchmarking of GPs and their portfolio's.

Going forward, we expect significant development on sustainability topics from different stakeholders. First, ambitions around climate change are growing and PFZW has set a goal to be net zero in 2050. Therefor we aim that by 2040 our portfolio companies are committed to become net zero in 2050. To realize this we are engaging with GPs on this topic already today and will be formalizing and scaling up our efforts. Where possible we will align our efforts with industry initiatives like iCI and IIGCC. Secondly, we see the demand for increased transparency about the adverse impacts directly or indirectly linked to our investment portfolio. This is not only required by our clients as signatories of the International Responsible Business Conduct Agreement, but also by the Sustainable Finance Disclosure Regulation. In 2023, PGGM will publish its first principal adverse impact statement on entity level. Finally, we will further strengthen our SDG strategy by increasing SDIs and by measuring their impact. This is also in line with the broader trend in measuring and increasing the alignment with the EU Taxonomy. Over the longer term, we hope to help drive improvements in these metrics as well as on their level of reporting.

We expect to add an ESG data analyst to our team in 2023. This will also help us to improve our ability to gather and analyze data from our GPs and portfolio companies, with the aim to report the ESG developments in our portfolio in a more granular manner.