Annual Report PGGM Vermogensbeheer B.V.

2019

The original 2019 PGGM Investments annual report and its financial and non-financial statements were drafted in Dutch. This document is an English translation of the original Dutch document. In case of any discrepancies between the English and the Dutch text, the latter will prevail.

PGGM

Inhoud

A message from the CIM

I am very proud to present you with PGGM Vermogensbeheer B.V.'s first integrated annual report. After publishing two separate annual reports for many years, with one always devoted entirely to our progress in responsible investment, we have now merged the two. A clear sign that the principles of responsible investment have now largely been integrated in our investment processes.

PGGM Vermogensbeheer performs the mandates for a number of pension funds, among which Pensioenfonds Zorg en Welzijn (Pension Fund for the Healthcare and Social Sectors) occupies an important position in terms of size. PFZW's responsible investment ambitions once again presented us with interesting challenges in 2019, and we ensure that the experience we amass in this context is used to benefit our other clients as well.

The coronavirus crisis will most likely still be in full swing when you read this. Against that backdrop, the 2019 investing year seems a long time ago. The contrast with 2020 will be stark. By the time this report was being finalised, PGGM Vermogensbeheer had managed to quickly and successfully secure our operational continuity, with the large majority of our employees working from home. Our teams dealt with the dramatic movements on the financial markets in close dialogue with our clients in order to protect their capital as much as possible.

At the same time, it is important to remember in calm and unstable periods alike that we need to achieve a long-term return with the pension capital entrusted to us. Investing with a long horizon, whereby we doggedly persevere with our task of making the capital increasingly sustainable and, where possible, impacting society positively through investment. We once again took steps in this respect in 2019, and will continue to do so in 2020, both in private and public markets.

With an integrated annual report, we present our financial and non-financial information below in such a way that we can place PGGM Vermogensbeheer's activities and results in a broader context. This is aimed at providing the reader with a framework for gaining better insight into and understanding of our considerations and actions.

2019 will go on record as one of the best years for PGGM's clients in terms of investment. Thanks to extremely good results achieved mainly in public markets, an overall return of 18.7 percent was attained. Our private market investments also performed well, creating stable cash flows for a predictable result.

This was also the year we again took major steps in terms of increasing the sustainability of investments. The investments with a measurable impact grew by 4.5 billion euros, so that the ambition of investing a total of 20 billion euros in solutions in 2020 is cautiously coming into view. A four-year CO_2 reduction programme in the equity portfolio was also completed for PFZW, decreasing the carbon footprint of these investments by more than forty percent overall. This included moving capital to the most energy-efficient companies in energy-intensive sectors.

In the hectic times brought on by a pandemic and a world in crisis, it can be difficult to predict what the future will bring in terms of managing pension capital. One thing that is certain is that this future will hold out opportunities. Risk premiums have risen dramatically as a result of the market turbulence, something that long-term investors like PGGM will be able to profit from.

Government policy and EU policy will create new opportunities, in which context I would like to refer to the Dutch Climate Agreement, the EU's Green Deal and the new EU taxonomy for facilitating environmentally-friendly investing. This added to new ambitions that PFZW is formulating for the period up to 2025 will provide direction for our efforts as manager of the pension capital on which some three million people in the Netherlands directly depend.

Eloy Lindeijer,

Chief Investment Manager PGGM

1. Creating value for our clients

We are PGGM. A safe bet in health care and social care. We work for good, affordable and sustainable pensions for our clients and their participants.

At the end of 2019, PGGM Vermogensbeheer B.V. (PGGM) managed a total of over €252 billion in assets for its clients, making us the second largest pension provider in the Netherlands. Our clients, the pension funds, ensure a good and affordable pension for their participants. They do this by investing the premiums. Our objective is therefore to carry out our clients' investment policy as soundly as possible. The starting point and mission of Vermogensbeheer is consequently to help people realise a valuable future. As investor, we therefore act decisively, with respect for people and the environment.

General

Before you is the report for Vermogensbeheer for the period 1 January 2019 to 31 December 2019. Vermogensbeheer is a wholly-owned subsidiary of PGGM N.V. For this reason, the assets and liabilities and the result are fully incorporated in the consolidated financial statements of PGGM N.V. The PGGM N.V. shares are in turn held by PGGM Coöperatie U.A., a cooperative established by social partners in the healthcare and social welfare sector. PGGM Coöperatie U.A., its subsidiaries and other participating interests together form the PGGM group.

We support our clients with fiduciary management and asset management. We invest the collective pension assets cost-efficiently. We attune the investment policy to the wishes of our clients, the pension funds, with attention to a good financial and socially responsible return and rigorous risk management. Fiduciary management and advice supports our clients in their role as principal, both with advice and subsequent implementation. The management activities relating to the execution itself are: the management of overlay portfolios and the selection and monitoring of external managers and risk management. For a significant portion of the investments, we perform the asset management ourselves within PGGM N.V.

AIFM licence

Pursuant to Section 2:67 of the Financial Supervision Act (Wft), the Authority for the Financial Markets (AFM) has granted PGGM Vermogensbeheer an AIFM licence allowing it to act as the manager of an investment fund as defined in Section 1:1 of the Wft, effective from 4 April 2014. The licence is limited to offering rights of participation to professional investors.
Pursuant to Section 2:67a(2) of the Wft, PGGM Vermogensbeheer is also permitted to carry out the following activities or to provide the following services:

- Manage individual capital;
- Advise on financial instruments in the context of practising a profession or conducting a business;
- Receive and transmit client orders related to financial instruments in the context of practising a profession or conducting a business.

Our strategy

We recalibrated our strategy in 2019. PGGM wants to be a distinctive, reliable and professional asset manager for its clients and help them - now and in the future - to realise their pension ambitions. Our 2023 strategy is aimed at ensuring we become a safe bet in health care and social care. We opt for mass custom work, want to be best in class and are cultivating a closer relationship with the health and social sector.

Our core values

Our core values serve as an important guide in our actions:

- Supportive
  We act in the interest of our clients' participants and strive for excellent execution.
- Responsible
  We realise that the money we invest does not belong to us and work in an environment of trust in which each party shoulders its responsibilities.
- Steadfast
  We stand for our clients' values and work towards common objectives in our cooperation, from the basis of our expertise.

How we distinguish ourselves

We distinguish ourselves by the following characteristics:

- PGGM is close to its clients and the short lines facilitate efficient and effective execution.
- We invest our clients' money at low costs and are transparent about those costs. Operating without a profit motive contributes significantly to this.
- We have a strong fiduciary management activity. For the clients that purchase this, we integrate all the aspects of asset management.
- We have a distinctive platform for private markets.
- The combination of consultancy services, fiduciary management and asset management contribute to excellent integrated execution of the investment instructions from our clients.
- The various teams from Vermogensbeheer are active on the most relevant public and private markets.
- We have broad knowledge and experience in sustainable investing and in making and measuring impact.

Our goals

We want to be a distinctive, reliable and professional asset manager for our clients in the future as well. That is our ambition. We have set ourselves two goals for the next five years in order to attain this ambition:

1. We deliver best-in-class asset management.

It is our ambition to deliver best-in-class asset management. This means that we can count ourselves among the best in the market within the relevant asset classes. With best-in-class asset management, we ensure good, affordable and sustainable pensions for our clients and their participants. We are a leader internationally and are among the biggest investors worldwide in private equity, infrastructure, property, credit risk sharing and insurance-linked investments. Together with our largest client, we also deploy our system knowledge to accelerate the energy transition.

To be able to provide this excellent service to our clients, it is important that we are always learning and that we act on our findings. That is why the various Vermogensbeheer teams are assessed by an external party once every three years to review whether they have best-in-class status.

2. Our business operations are flexible and efficient.

Flexible and efficient business operations are crucial for realising our ambition. We want improved insight into and control of our costs and a recalibration of our business operations in order to flesh out our best in class ambition. We want to be able to anticipate changes in our environment quickly and effectively and that means we must be ready for the future. We research all the possible future scenarios, therefore, and prepare for these. This is one of the reasons we want to optimise the use of our IT systems, which support efficient execution of our services. We are also developing new knowledge and skills in areas such as robotisation and artificial intelligence (AI). Thanks to our investments, our business operations are now more flexible and robust.

PGGM as a company

As a company, we have expert people in house and we are constantly on the lookout for new talents to strengthen our company. Not only in the areas of fiduciary management and asset management, but also in relation to consultancy, risk management, administration, performance measurement and legal and tax services.

We strive for robust business operations, both operationally and financially. We offer a modular platform for this that not only contributes to excellent execution of our clients' investment plans but is also conducive to the manageability of our processes and facilitates innovation.

We want to show that we can stand up to the best in every asset class. We therefore see properly elaborating and introducing the business improvements necessary for this as a key point for our strategy for the coming years.

Awards for PGGM Vermogensbeheer in 2019

2019 RAAI Leaders List	Inclusion on the list of 25 'Most Responsible Asset Allocators' worldwide
SCI Capital Trades Award	Contribution to the sector Investing in Structured Credit
Pension Pro Award	New way of investing responsibly
Pension Pro Award	Long-term investor of the year
Trading Risk Award	Contribution to the Insurance-linked Securities sector
Distinction from the Global Steering Group for Impact Investment	Efforts in the area of investing with impact within strict financial constraints

PGGM, an international knowledge organisation

Dolores de Rooij, Associate Investment Manager,
Team Infrastructure

'Besides putting knowledge into practice and attaining more knowledge, I was looking for an organisation that is conscious of its societal impact. Because PGGM is a long-term investor, investment risk and return are analysed from that angle of approach. I am also given the room to take on my own responsibility, and I can always rely on experienced colleagues on my team and, beyond that, on external advisers appointed in the event of advanced investment opportunities. It is genuinely a knowledge organisation as far as that is concerned. I am currently working on an international team with many experienced people who have been working in this field for a longer period of time. Ideal for a steep learning curve, although you are naturally expected to function with a large degree of independence. Our focus is mainly on the US and Europe, which means you travel a good deal. What characterises PGGM in my view, therefore, is that from its base in the forests of Zeist, it manages enormous investments on a global scale; something you would never expect as you walk by the farm next door. We occasionally organise a dinner or go for drinks outside working hours. An important element for good cooperation and positive dynamics, in my view.'

PGGM as investor

We provide our services to a number of clients. Our multi-client service provision ensures we closely monitor developments and requirements in the market and that enables us to provide better service to all our clients. We are also the overall manager of the assets of Pensioenfonds Zorg en Welzijn (PFZW), the second largest pension fund in the Netherlands. PFZW's assets are therefore a large part of the total assets under our management. So as investor, we have a strategic partnership with PFZW. PFZW's investment policy largely determines how - and the asset classes in which - we invest.

We offer pension funds an efficient, high-quality platform. This requires professional skill, innovation and a focus on the long term. It is no longer enough to continue doing more of the same. We keep tight control on costs in our pursuit of excellent service provision. Moreover we invest for the long term. By always being transparent about our costs, we want to continue to earn our clients' trust.

PGGM offers the entire spectrum of asset classes. Consequently we have expertise on and an overview of the entire portfolio and knowledge of all markets. We understand how the markets are interconnected.

Because we want to measure up to the best in the market, where possible we apportion the mandates that clients want to purchase from us into two parts. One part is accommodated at PGGM and the other at an external manager. This allows us to compare the results and gives us the opportunity to demonstrate that the quality of our work justifies our being given the mandate. Read more about our External Management team in chapter two, under 'a peek into the practice'.

We want to set the tone in sustainable investment. Good returns take priority here. At the same time, we - and PFZW - know that a good pension is worth more in a liveable world. This is why we invest for the long term on behalf of our clients. We take account here of the effects on people and the environment, with special attention to health care, the climate, food security and clean water. As an investor, we also have an influence on a large number of businesses worldwide. We use that influence to push sectors where a great deal is still open to improvement onto the right track. We report entirely openly on the dilemmas that this sometimes creates.

Our clients' investment policy

Our clients' investment beliefs and principles are decisive for our execution. Financial return is the priority here. It is our clients' primary responsibility to provide their participants with a good and stable pension. Our clients embrace a sustainable vision on investing and feel a responsibility to contribute to this world. They also do this from the belief that responsible investing and a good return go hand in hand in the long term and as such result in a better risk-return profile.
In order to realise a better risk-return profile and contribute to a more sustainable world, our clients are prepared to make choices in their investment decisions. They avoid certain investments, such as tobacco products and controversial weapons, for instance, opting to instead invest in other companies and projects to increase their positive contribution.

Clients trust us to carry out their policy. They give long-term mandates in this respect. A benchmark is selected for every mandate. This is an objective measure against which the investment portfolio's performance is compared. This kind of benchmark is usually a particular market index (composition of companies). Generic market indices do not always match the sustainable ambition or identity of our client, however. A benchmark might include companies in which our client does not want to invest on principle, for instance. That is why PGGM has also put together suitable benchmarks in which our clients can invest.

Recalibrated investment policy for Pensioenfonds Zorg en Welzijn

PGGM helped its biggest client, Pensioenfonds Zorg en Welzijn (PFZW), recalibrate its 2020-2025 Investment Policy over the course of 2019. This builds on its 2020 Investment Policy but shifts the emphasis on several points in the financial ambition, to increase the sustainability of the investment portfolio as a whole, for instance, and ensure a more measurable impact in terms of the Sustainable Development Goals. The recalibrated investment policy contains six policy initiatives which will be worked out in more detail and made more concrete in 2020.

Our clients

In the field of asset management, we are the second largest pension administration organisation in the Netherlands. During the period under review, Vermogensbeheer had seven pension funds as clients: Stichting Pensioenfonds Zorg en Welzijn (PFZW), Stichting Pensioenfonds voor Huisartsen (SPH), Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf (BPF Schilders), Stichting Pensioenfonds Smurfit Kappa Nederland, Stichting Bedrijfstakpensioenfonds voor de Particuliere Beveiliging, Stichting Pensioenfonds voor de Architectenbureaus (Pensioenfonds Architectenbureaus) and Stichting Algemeen Pensioenfonds Volo pensioen (Volo Pension).

PGGM Vermogensbeheer clients in 2019		
	Number of participants (in thousands)	Assets managed within PGGM (in millions)
Stichting Pensioenfonds Zorg en Welzijn	2,871	238,372
Stichting Pensioenfonds voor Huisartsen	21	1,145
Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf	109	8,152
Stichting Pensioenfonds Smurfit Kappa Nederland	N/A	769
Stichting Bedrijfstakpensioenfonds voor de Particuliere Beveiliging	N/A	467
Stichting Pensioenfonds voor Architectenbureaus	N/A	2,987
Stichting Volo Pensioen *	3	350
Total	3,004	252,242

* This client's contract is not being renewed.

Impact of the strategy on our clients

One of the aims of our strategy is the simplification of the services, as a result of which PGGM is and will remain operationally and financially attractive for our clients.

With our new strategy, 'PGGM, a safe bet in health care and social care', we have made a clear choice. We are firstly here to serve the health care and social care sector. That is where our roots are and where our future lies. Together with Pensioenfonds Zorg en Welzijn (PFZW), we support the financial future of people who work in this sector and contribute towards a healthy and vital sector itself. In order to help realise our ambitions, we make our services, knowledge and experience available to other clients as well. They reap the rewards of the scale and quality we are able to deliver thanks to PFZW. Offering the various schemes and products makes us flexible. We need that flexibility in order to be able to provide an affordable and sustainable old-age pension in all future scenarios. So we want to continue the service provision to these other clients in the years to come.

As a consequence of our new strategy, we will not be renewing the contracts with Volo Pension. This is taking place in close consultation with and support for a good transfer of Volo Pension.

How our service provision is set up

We support our clients through two complementary services: fiduciary management and asset management.

Through fiduciary management, we support our clients in their role as principal across the board and as asset manager we provide our clients in all investment markets with a solution based on the investing knowledge we have in house. Responsible investment is an integral part of the execution in this context.

We want to stand up to the best in every investment market. That is why the various asset classes are managed by specialised investment teams at Vermogensbeheer. In order to give an impression of what this looks like in practice, we highlight a number of these teams in chapter 2.

Asset management

Being a best-in-class investor calls for more than just skilful asset management. It also requires proactively contributing ideas and providing insight into all facets of asset management for pension. For example, by always being transparent about return, risk and costs. We underscore the importance of a healthy financial sector and aim for stable and sustainable growth, in keeping with our clients' ambitions.

Responsible investment means that we consciously take account of environmental, social and governance (ESG) factors in our investment activities. Our knowledge level in the area of responsible investment is high. We also hold a prominent role in this field worldwide. This contributes to excellent service towards our clients.

At PGGM, Vermogensbeheer is sub-divided into public and private markets. Public markets include shares in listed companies, for instance, while private markets could involve direct investments in infrastructure projects. Public markets, which we manage both actively and passively, account for the majority of our client portfolios. Within the public markets platform, we invest for our clients in asset classes such as listed shares, government bonds and corporate bonds.

Within the private markets platform, we actively invest in non-listed asset classes for our clients: private equity, private property, infrastructure, credit risk sharing transactions with banks, natural disaster risks and residential mortgages. We do this via mandates we give to external managers and increasingly through direct investments. Private investments help our clients to achieve higher and more stable investment yields and to realise a tangible impact on the real economy, including in the Netherlands. In the current financial markets, interest rates and returns are lower than in the past. These investments offer our clients a solution for this. Due to their long-term character, private investments are also a good fit with the longer investment horizon of pension funds. We also help our clients to contribute towards a liveable world. We do this by investing in e.g. rented care flats, wind farms, food producers and drinking water facilities.

Fiduciary management

While the underlying assets are managed by specialised investors, as fiduciary manager we focus proactively and flexibly on improving our clients' policy and the integrated control of its implementation. We manage the investment portfolio based on our clients' beliefs.

As fiduciary manager, we monitor the risks and returns of the portfolio and constantly test these against the ambitions and obligations of our clients. Our clients are forced to take risks. After all, there is no return without some risk. As part of our fiduciary management, we try to chart out as accurately as possible where these risks lie and to then manage them as well as possible.

This requires knowledge in a number of fields. This could include not only risk management for the overall investment portfolio, for instance, but also the selection and monitoring of external managers.

2. Implementing our clients’ policy

Our primary task is to provide a good pension. However, if we were to simply put the pension premiums into savings, our clients would not have enough to pay the pensions to their participants. This is why we invest our clients’ money. With the return we achieve, we keep pensions affordable.

The year 2019 was characterised by extremely high returns. While 2018 still closed with a slightly negative return, the entire portfolio under management at PGGM achieved a return of 18.7% in 2019.

Key figures

	2019	
Yield *	0.79%	* This is determined on the basis of the interest rate term structure published by DNB. This is determined by the swap rates, with an Ultimate Forward Rate (UFR) from 2020.

	2019	2018		2015 to 2019	2014 to 2018
Weighted net return for all Vermogensbeheer clients	18.70%	-0.47%	5-year return including interest rate hedging	6.78%	6.28%

Geographical region	2019 percentage	2018 percentage
Africa	1.5%	1.4%
Americas	32.8%	32.6%
Australia	1.7%	1.9%
Asia	12.5%	13.2%
Europe	47.2%	47.4%
Worldwide	4.3%	3.5%
Total	100.0%	100.0%

Fund/mandate	Market value (€ x 1 million)	Return	P/L (€ x 1 million)
PFZW Interest rate hedging mandate	€68,405	22.3%	€13,368
PGGM Developed Markets Equity Fund	€32,144	30.4%	€7,325
PGGM Private Real Estate Fund	€14,604	11.4%	€1,512
PGGM Listed Real Estate Fund	€14,555	24.8%	€2,961
PGGM Developed Markets Alt Equity II Fund	€14,111	26.6%	€1,832
PFZW Private Equity	€13,960	20.5%	€2,433
PGGM Developed Markets Alt Equity Fund	€12,628	27.3%	€3,927
PGGM Emerging Markets Debt Local Currency Fund	€11,041	15.3%	€1,582
PGGM Emerging Markets Equity Fund	€10,213	21.7%	€1,723
PGGM Infrastructure Fund	€9,397	9.9%	€815
PGGM Commodity Fund	€8,670	26.0%	€2,023
Subtotal	€209,726		€39,501

In the category marketable securities, it was mainly the public equities funds that contributed to the high return on portfolio level.

Private markets

Despite the growing competition, most private market funds managed to make the desired investments in 2019. The market for infrastructure has become extremely competitive, which has made it a challenge to realise the desired allocation. Since no concessions are made on price or control, a number of transactions were not successfully concluded. Most conspicuously the sale of Eneco, for which PGGM made a bid together with partner Koninklijke Shell, but which was ultimately acquired by a Japanese consortium.

Public markets

In public markets, clients' investment plans are implemented in accordance with the assignment. In an exceptional year of falling interest rates, extremely high returns and sometimes low liquidity, it was a challenge to keep up with the benchmark after costs. This was the case especially for those funds for which the investment target included a strong focus on quality and lower volatility than the benchmark. It is therefore satisfying that at the end of 2019, almost 60% of the funds managed within the public markets department since their start are still generating a return after costs equal to or in excess of the benchmark. Significant progress was also made in 2019 on sustainability in the funds and mandates, whereby the carbon footprint was further reduced and impact investments were further increased. Finally, a new investment team took up management of part of the allocation to Emerging Market Debt.

Allocation of assets under management

PGGM – Assets by type of investment	
31.12.2019	In billions of €
Public markets	
Listed equity	88.1
Government bonds	66.2
Corporate bonds	14.4
Private markets	
Private real estate	15.4
Private equity	14.1
Infrastructure	10.3
Mortgages	2.8
Derivative markets	
Swaps	22.2
Commodities futures	8.7
Insurance	5.8
Credit Risk Sharing	5.7
Cash and other	
Phase-out categories	0.8
Cash	-2.1
Total	**252.3**

PGGM – Assets by client	
31.12.2019	In billions of €
PFZW	238.4
BPF Schilders	8.2
PF Architecten	3.0
SPH	1.1
Smurfit Kappa Pf	0.8
BPF Beveiliging	0.5
APF Volo	0.4
Total	**252.3**

2019 market developments

Economic growth cooled off worldwide in 2019. After a period of ample growth in the real gross domestic product (GDP), US growth weakened somewhat to 2.1% on an annual basis while Eurozone growth slowed to 1.2% on an annual basis. This was due to, among other things, the uncertainty caused by the US-China trade war, which dampened both readiness to invest and the growth in world trade. This has affected particularly the industrial sector, while the services sector - much more dependent on domestic demand - in fact continues to do relatively well. The strong labour market and high consumer confidence still support consumer spending in the developed world. Because unemployment is now very low, job growth is declining, however, and growth in consumer expenditure will increasingly have to come from wage growth. Wage growth has been picking up in both the Eurozone and the US since 2018, and is now at over 2% on annual basis in the Eurozone and over 3% in the US. The outlook for consumer expenditure consequently remains reasonable. The likelihood of a chaotic no-deal Brexit appears to have decreased significantly in the UK. In the UK elections last December, Boris Johnson managed to win a large majority in Parliament, allowing him to easily pilot the exit agreement concluded with the EU through Parliament.

The expectation at the beginning of 2019 was still that the US and Eurozone central banks would raise policy interest rates (further) in 2019, thus prompting a continuation of the normalisation of the monetary policy. As a result of a cyclical slowdown in growth stemming mainly from increased uncertainty due to the US-China trade war, in combination with the lack of any noteworthy increase in inflation (forecasts), the policy interest rates were in fact lowered. The US central bank labelled it a ‘mid-cycle adjustment’ and lowered the interest rate three times by 25 basis points. Liquidity in the financial system was also increased. The ECB decided in September to not only lower the interest rate, but to also resume its bond-buying programme (for 20 billion per month).

The prospect of interest rate cuts by the central banks ensured that at the beginning of the year, equities markets made up much of the price drops of the last quarter of 2018. Later in the year, the prospect of a (partial) trade agreement between China and the United States caused price gains to be expanded. Equities markets in developed countries ultimately booked gains of almost 30%. Emerging markets booked gains of over 20%.

The low interest rates had already anticipated the policy turnaround by the central banks, and a decline set in from autumn 2018 onwards. For 2019 as a whole, the German 10-year interest rate fell 45 basis points to -0.20%. A level of -0.71% was reached in the interim, followed however by recovery. The 30-year swap rate was briefly negative for the first time, but finished the year at 0.60%. The decrease in long-term interest rates ensured that bonds achieved a positive return.

Brent oil started the year with a substantial increase. Inventories decreased, due to sanctions the United States imposed on Venezuela, among other reasons. The oil price continued to rise over the course of the year, due in part to attacks carried out on two important oil installations in Saudi Arabia. The installations - which accounted for 50% of

Saudi oil production - were quickly repaired, however, causing the price shock to disappear. The rise in the oil price continued at the end of the year. Commodities investors invest in forward contracts. Before the expiration of the contract, it is sold and new contracts with a longer term are bought in, a process that repeats itself monthly. Because of the lower inventories, forward contracts are in backwardation, meaning that the price of future contracts is lower than the spot rate. This generates a positive roll yield.

The total return on client investment portfolios was positive. All asset classes except for currency hedge and inflation instruments contributed positively. Equities, commodities and listed property saw the highest returns. Government bonds and interest rate swaps, among others, likewise achieved a positive return. At the same time, the long-term interest rates in the Eurozone decreased, pushing up pension liabilities (what we need to pay to pensioners in the future and currently).

Risks and risk management

As a pension fund service provider, we carry out the investment instructions of our institutional clients. The optimal weighing of risks and expected return are the focus in this. Risks can never be entirely eliminated, however, nor would this be desirable. Because this is not our assignment: there is no return without some risk. The risks must be in line with our own wishes and choices, but mainly with those of our clients as well. What is important is whether our clients are rewarded for the risks they run. Where identified risks negatively impact the future expected return, PGGM can decide not to invest or to strive for a higher expected return.

Risk management

PGGM risk framework

For the implementation of risk management, we use the PGGM risk framework to structurally provide insight into, monitor and report on risks. PGGM's Risk Framework is based on the COSO Enterprise Risk Management methodology accepted internationally as standard.

Risk management at PGGM is organised in accordance with the generally accepted 'three lines of defence' model. Responsibility and primary risk management lie with line management (first line). The Finance & Control and Risk & Compliance departments (second line) supervise and report on the risks. Internal Audit (third line) assesses whether the management demonstrably complies with the different requirements stipulated in relation to risk management.

Risk appetite

With every decision, risks are taken, consciously and unconsciously, in order to realise certain objectives. In order to determine whether we are willing to run a particular risk, and to what extent, it is necessary to determine our risk appetite. If a risk is assessed as lying beyond the risk appetite, extra control measures are necessary in order to bring this risk within the limits of the risk appetite. The risks and the accompanying risk appetite are divided into three risk clusters: Corporate, Service Provision and Reputation. We have also made a distinction in relation to certain risks between risk appetite in a 'running the business' situation (execution) and risk appetite in relation to 'changing the business' situations. This is based on the thinking that continuity and reliability weigh the heaviest in the performance of our service provision, while major change programmes sometimes require more latitude for experimentation and learning, for example in the event of innovations.

Risk culture

Effective risk management goes hand in hand with a healthy risk culture. The risk culture we strive for is focused on risk-aware behaviour in an open and honest environment in which we are accountable to each other for responsibilities, results and behaviour in relation to PGGM's values, standards and objectives. PGGM stands for a risk culture in which incidents – no matter how uncomfortable – are reported. We can then learn from these and mitigate their impact as quickly as possible and take structural measures to prevent similar situations in the future. To be able to offer best-in-class service, working under architecture must constitute an integral element of the corporate culture. In addition to the substantive mitigating measures (procedures, controls, etc.), known as 'hard controls', the 'soft controls' (behaviour and matters that influence the behaviour of others) also receive attention. In investigations by Internal Audit and in background and trend analyses of incidents by Risk & Compliance, attention is also devoted to the soft controls, the underlying causes of the problem and the behaviour appropriate for a solution.

Risk management process

Enterprise Risk Management is a continual process at all levels of our organisation. The Risk & Compliance department is responsible for coordinating the risk management process and draws up a monthly risk report. This risk report presents the risk picture for each cluster of risks, compared with the risk appetite. The substance of the risk report is discussed and adopted by our Unit Risk Committee. In addition to the risks that actually manifested themselves, the Committee specifically considers the risks that could manifest themselves in the short and longer term, i.e. the prospective risks.

Based on this overall risk profile, actions are initiated and we issue an 'In Control Statement' (ICS). With the ICS, PGGM Vermogensbeheer's management team (first line) declares that internal control measures have been realised and have worked effectively and that it can be stated with a reasonable degree of certainty that the business operations were conducted in a controlled manner, with integrity. The ICS also states that the risk picture presented provides a true and fair view of PGGM's risks, which is confirmed through the co-signature of the ICS in the second line by the Manager Enterprise Risk Management.

Risk management developments in 2019

We updated the PGGM Risk Framework in 2019. The PGGM Risk Framework was brought in line with the changes made to the risk management process in 2018 and 2019 as a result of, among other things, the updated risk appetite and PGGM risk language. In 2019, the risk appetite was defined based on the PGGM risk language and we started making the risk appetite more concrete in risk cards for each risk, including a link to the control measures (hard and soft controls). The next steps for structurally embedding this process will be taken in 2020.

We also updated the set of Risk & Compliance control indicators in 2019. In this context, several control indicators relating to incidents were specified for asset management. New control measures for, among other things, IT disruptions, project progress and budget overruns were included in the set. Existing control indicators were tightened up and outdated control indicators were scrapped.

Climate risks

The World Economic Forum has for years considered climate change among the biggest risks facing the economy and society. At the same time, forceful measures to put a stop to climate change have still not been forthcoming, despite ambitious intentions from the new European Commission. Greenhouse gas emissions continue to increase, while a steady decline is needed in order to achieve the objectives contained in the Paris climate agreement.[1] The effects of climate change are, at the same time, becoming increasingly visible, with the forest fires in Australia representing a low point so far.
Central banks increasingly see climate change as a serious threat to financial stability and financial institutions. The Network for Greening the Financial System issued two reports in 2019, A call for action: Climate change as a source of financial risk and Macroeconomic and financial stability: Implications of climate change. The reports underscore the importance of integrating climate change in investment policy and implementation.

Climate change has been a concern for PGGM and our clients for years. The relationship between climate change and investing is twofold. On the one hand, climate change - and

---

[1] The International Energy Agency reported in February 2020 that carbon emissions for the generation and consumption of energy had stabilised in 2019. Whether this is the start of an actual turnaround and whether non-energy-related emissions are also stabilising remains to be seen.

measures to combat climate change - have an impact on the value of our investments. It is our fiduciary responsibility to understand and respond to these effects. On the other hand, our investment decisions have an impact on the climate. We feel societal responsibility to reduce our negative impact on the climate and increase the positive impact.

Via the investing in solutions mandate from our biggest client, we have amassed a great deal of experience in developing investment strategies that explicitly take climate change into account. This experience puts us in a good position to comprehensively manage the growing risks, although quantifying these risks remains a challenge.

We distinguish between the physical and transition risks posed by climate change. The physical risks are the consequence of climate change. This could include higher temperatures, extreme weather, drought and rising sea levels. Transition risks arise when the causes of climate change - greenhouse gas emissions - are eliminated. Fossil energy is being replaced with sustainable energy, and businesses and other assets dependent on fossil energy that do not change in time will decrease in value or even disappear entirely. These become what are called stranded assets.

Physical and transition risks complement each other to a certain extent. If the world succeeds in limiting global warming to a maximum of 2ºC as agreed in the Paris Agreement, transition risks will dominate. If the world does not succeed in that, physical risks will increase. In our investments, we try to manage these risks as well as possible, and weigh them against the expected returns. What is crucial in this context is how these risks have already been factored into the prices of financial assets. Various studies argue that the market still appears to be underestimating these risks.

CO_2 reduction in the investment portfolio

Like most economists, we take the view that better pricing of CO_2 and other greenhouse gases is the more effective and fair measure for counteracting global warming. We firmly believe that over time, higher CO_2 pricing is inevitable. As such, CO_2 pricing constitutes a transition risk for the investment portfolio,

which is why we started reducing the footprint of the equities portfolio several years ago already. We do this by reallocating investments in the most CO_2 intensive sectors - energy, utilities and materials - to companies that are relatively CO_2 efficient. Companies with high emissions are, in our view, insufficiently prepared for a low CO_2 future and are therefore gradually disappearing from the portfolio. By doing this we send the signal that businesses must reduce their emissions. We keep the sector allocation unchanged because we believe that all sectors will continue to play a meaningful role in a low CO_2 economy for the time being. This phasing out can also function as a hedge against the possible decrease in value of investments with a large carbon footprint.

Our largest client has set the goal of halving the CO_2 emissions of their investments by 2020 in comparison to 2014. Since the baseline measurement, the carbon footprint has been reduced from 339 tonnes of CO_2 per million dollars of business turnover to 202 tonnes of CO_2 per million dollars as of 31 December 2019. Over the period from year-end 2018 to year-end 2019, from 239 to 202 tonnes of CO_2 per million dollars in business turnover. This is a decrease of over 40% in four years' time. The objective of 50% was not entirely achieved over this period, therefore. This is mainly a consequence of the CO_2 intensity of the broader market. Many businesses and even entire sectors are gradually showing higher CO_2 intensity. The historical data in fact point to a steady decline. There has therefore been a break in the trend over the past several years. The method designed could not stand up to this kind of 'setback'. Nonetheless we are proud of the results. We must not forget that when we started on this in 2014, CO_2 reduction was still largely unexplored territory. A CO_2 reduction of over 40% of the total equities portfolio in four years' time is therefore already an excellent result.

At the moment, we are working with our largest client to look into what targets are possible for the future. The CO_2 reduction achieved in the 2014-2020 programme will of course be maintained. But there are plenty of options for next steps. This could include extending the climate target from equities to the total portfolio, broadening the criteria for emissions to transition and physical risks, for instance, and seeking even more harmonisation with our peers at home and abroad so that the results achieved are more amenable to comparison. We expect to be able to say more about this in the coming year.

Task Force on Climate-related Financial Disclosures

Two years after the publication of its reporting framework, the work of the Task Force on Climate-Related Financial Disclosures (TCFD) has taken off. The call for TCFD reports to be made mandatory has since become louder. In 2019, the European Commission published a new version of the Non-Financial Reporting Directive to which the TCFD framework was added. We published our first TCFD report in 2018. The information in that report is still broadly current. We aim to update the report in the event of any material changes. This report can be consulted for detailed information. In the table below, we summarise this information and describe new developments in the management of climate-related risks and opportunities.

Governance	• The management board supervises all material financial risks - including climate-related risks - and the management of those risks in our clients' portfolios. • The Corporate Risk & Compliance Department coordinates the risk management process. Individual investment teams are responsible for managing risks, including climate-related risks, as part of their strategies in public and private markets and when entering into and managing individual transactions
Strategy	• Scenario analysis is an instrument for our climate change strategy. As an investor, we take a number of climate scenarios into account. This means that both transition and physical risks could materialise, and that both climate mitigation and adaptation pose opportunities. We also expect companies in our portfolio to prepare for several climate scenarios and that they provide insight into this.
Risk management	• In 2019, we further tightened up the management of both transition and physical risks in the portfolio. In particular, we looked into how we could bring the property investments in line with the Paris Agreement; the knowledge gained can be applied more broadly, however. The knowledge provides tools for taking into account in the property portfolios what we expect will be the inevitable price increase in CO_2. Details can be

	found in the paper Climate risk assessment in global real estate investing.
Risk estimates and goals	• In 2019, we concluded the CO_2 reduction strategy announced in 2015. The decrease achieved was over 40%. As such we did not achieve the original ambition (to reduce by half). The portfolio changes implemented contributed to the CO_2 reduction as expected. Contrary to expectations, companies themselves have become more CO_2 intensive, which has partially cancelled out the effect. • In 2019, some of our clients, including our largest client PFZW, committed to the Climate Agreement. In the coming year we will be investigating how we can concretely flesh out the new ambitions from the Climate Agreement and investment policy.

ESG integration: for a better risk-weighted return

We take ESG factors into account in our weighing of risks in order to arrive at a better risk-weighted return. ESG factors can directly and indirectly impact financial results. For instance, climate-related financial risks such as more extreme weather conditions that result in higher claims at insurers. Companies with substandard safety and risk management run greater risks of incidents and accidents, which can subsequently result in an increase in risk or, as the case may be, loss of return.

We do not see ESG risks as a separate set of non-financial factors, but as non-traditional sources of financial risks. ESG factors are a way of analysing financial risk in the long term. The academic literature has since produced a substantial volume of evidence that supports the thinking that attention to ESG factors actually results in better investment performance in a financial sense. For our clients, it is important to see this confirmed in the results of the various programmes managed on the basis of ESG factors, i.e. the CO_2 reduction programme and the exclusion policy, at present.

PGGM has been measuring the financial consequences of the aforementioned instruments for several years already. In the past, a great deal of attention was devoted mainly to the question of whether the ESG policy results in higher returns on the investments. Our calculations demonstrate that these instruments have not, to date, had any significant impact on the returns on the investments.
Returns also cannot be viewed separately from the risk of the investments. Academic meta-studies of the impact of ESG policy on investment results suggest that improved

performance can mainly be traced back to risk reduction. That is also why measuring the impact of the ESG policy on risk is important. This is difficult to calculate but we continue to devote attention to this since this could help to further refine the programmes.

ESG integration in figures: **effect on the portfolio compared to the reference index**

It is crucial for us and for our clients to be able to properly understand and monitor the actual effects of the policy on the performance of the investments. This applies both for the impact on the return and on the risks, therefore. It does not suffice in this context to determine the height of this impact alone. We also want to better understand whether the impact on the returns follows a certain pattern, for instance whether the instruments for responsible investment result in less drastic negative outliers. These are difficult calculations. Years of data are moreover required. As more data become available over time, these effects become clearer. This enables us to increasingly better substantiate the effects of the ESG policy on the investment results and our clients can make more focused choices in their policy in this regard.

The figure below shows that our instruments for ESG integration have not, to date, had any significant impact on the returns on the investments.

2019	Total effect (percentage points)
CO_2	0.163
Weapons	0.004
Weapons AFM prohibited	-0.039
Tobacco	0.089
Engagement-related	0.005
Others	-0.095
Total	**0.127**

2013-2019	Cumulative effect (percentage points)
Tax - Australian REITS	-0.010
Tax - American REITS	0.102
CO_2	0.241
Weapons	-0.638
Weapons - AFM prohibited	-0.139
Non-inclusions	-0.292
Tobacco	0.328

Engagement-related	0.137
Others	-0.091
Total	**-0.362**

Bottom-up ESG integration

At PGGM, ESG integration is primarily the responsibility of the different investment teams. Within the limits of the investment mandate, our investors have the freedom to make their own decisions in setting up the portfolio and the duty to report on progress. ESG plays an important role in this, as does financial return. How the investment teams take ESG factors into account and weigh these factors in the day-to-day considerations differs per asset class. This difference is mainly due to the degree of influence which PGGM can exert on the investment process, for example whether management is external or internal. Whether passive or active investment strategies are involved also makes a difference. The effect that ESG factors are expected to have on the asset class, such as risk reduction as compared to improved returns, also plays a role. For the more active mandates, the portfolio manager comprehensively takes ESG information into account in analysing a company, country or project and ESG analysis is consequently an integral part of the investment decision. Genuinely integrating ESG factors is no simple task. There are no clear standards or definitions. There is also much to be gained in relation to disclosure, the data that companies provide on their environmental policy, social conditions and sound governance. Qualitative assessments also need to be made sometimes - how can respect for human rights be expressed in financial models? Further on in this chapter, we show what ESG integration looks like in practice.

Bottom-up ESG integration: Infrastructure

Via the Infrastructure team, PGGM invests directly in infrastructure companies and projects. Because of our long-term focus, improving sustainability in the business operations of our investments is essential and in line with the interests of our clients and their participants. The team takes ESG factors into account when selecting new infrastructure projects. A first step in this process is the ESG Quickscan which looks at the possible ESG risks. For instance, they take the potential for conflict in the region, the labour standards and working conditions in the region, and the relationship with trade unions into account. During the due diligence phase, the identified risks are then managed. Depending on the outcome, they formulate agreements with the companies on managing these risks and on reporting potential incidents. Participation in the Global Real Estate Sustainability Benchmark (GRESB), the online ESG benchmark platform, and ESG KPIs are part of the reporting requirements. ESG factors are also a fixed part of the monitoring discussions and management is asked to devote attention to this, particularly if performance is less than satisfactory.

Bottom-up ESG integration: Long-Term Equity Strategy

The Long-Term Equity Strategy (LTES) team is positioned to invest by means of public equity in solutions for the four sustainability themes: climate change, pollution and emissions; water scarcity; food security and health care. Their investment universe is put together based on impact criteria. That means that the universe could include businesses whose ESG risks do not weigh up against the impact. It is therefore part of the assignment to screen businesses for ESG risks as part of the equities selection process. First, during their due diligence, an in-depth ESG analysis is carried out on a broad range of topics to chart out ESG risks related to the business. The analysis includes an assessment of the existing ESG policy, the reporting and management system, as well as research using independent external sources on the company's ESG performance. The team uses external data sources such as the Internet, annual reports and specialist databases like Sustainalytics B.V. and MSCI ESG Manager. LTES also explicitly examines the outstanding controversies relating to every business. All these data are weighed in the investment case for the company. They also engage in dialogue with the management of the companies in which PGGM invests. The ultimate result of the ESG analysis constitutes an integral part of the investment case. If portfolio companies are associated with material ESG issues, they try to contact the executive management to encourage risk management and process improvements. They try to exert influence and move the company in the direction of the best practices and international standards that apply for the sector. In a number of cases, our ESG analysis resulted in a company not being included in the portfolio.

Bottom-up ESG integration: Private Equity

Within the Private Equity team, ESG criteria are integrated in the entire investment process. This starts already with the assessment of our investment partners. The PGGM Private Equity team not only wants good returns, it also demands ESG performance from the general partner. PGGM only selects funds with whom agreement is reached on ESG standards. This is important because the private equity parties we work with are responsible for managing ESG issues. The team assesses how they deal with ESG in their investment process by means of our ESG framework. Among other things, data about country and sector risks are examined and these are compared with the general partner's ESG scores produced on the basis of PGGM's own assessment. This is then used as a basis to identify the investment partners with whom to enter into dialogue. Incidents, such as accidents involving serious physical injury, major environmental incidents and the legally established misappropriation of funds, are also recorded and discussed. The analysis based on our ESG framework provides a good structure in which to engage in dialogue with our partners on how they set up their process. It is also an instrument for getting a view of which partners are lagging behind and enables us to chart out whether the investment partners' portfolios involve high ESG risks.

Our investment teams have elaborated their own guidelines for responsible investment and published these on the PGGM website. See the website for more details on how they integrate ESG factors.

Determining the materiality of ESG factors

In order to assess whether ESG factors are material for our investment position for a specific investment, PGGM establishes processes which operate as part of investment decisions. We strive for consistency in this context by using a single system. We therefore weigh ESG factors as an integral part of the investment process.

Drawing up an ESG framework

PGGM periodically assesses the ESG framework for each asset class. This framework shows which ESG factors affect the financial performance of underlying investments and to what extent.

Integration in the investment decision

We then determine how financial and other ESG factors start or continue to play a role in the overall investment selection process. This can involve, for example, addressing ESG factors in due diligence, incorporating ESG factors in valuation models and/or developing policy or tools to assess external asset managers.

Monitoring and reporting tools

We also determine how ESG factors are regularly discussed with internal and external managers, which assessment criteria apply to internal and external managers, what reporting requirements and KPIs are laid down and how the ESG performance of the underlying investments is monitored. The status and development of the implementation of the above stages may differ in each asset class.

With the processes above, it is firstly essential that factors that potentially have a major impact on the future performance of the investments be charted out. These factors differ per industry/sector and per geographical location and activity.

In order to assess materiality, it is therefore necessary that the investment teams that have knowledge of the investments reach an opinion on the ESG factors that are relevant. In doing this, the teams use various data sources and the publications from the business or manager which is invested in. The investment teams must then systematically screen the factors. Investment teams draw up requirements for this, with support from the Responsible Investment team. Sector associations have also set up frameworks to create uniformity in the reporting on important ESG data. Our property and infrastructure teams make use of the Global Real Estate Sustainability Benchmark (GRESB) to measure sustainability performance, for instance. The advantage of these kinds of standardised methods is that the investment teams at PGGM use the same structure in which materiality risks can be assessed.

Challenges of ESG integration

ESG integration requires a weighing of various ESG factors but also of ESG factors in relation to financial performance. This requires estimating the time period in which ESG factors will become financially material. This consideration can often be difficult. The longer the investment is expected to be in the portfolio, the more important this consideration becomes and the more research that is required. This has an effect in the due diligence. What is essential in this is a clear vision on how ESG factors could be improved during the term of the investment, making it possible to lower the identified risks. We expect this to have a positive effect on performance.

Results of ESG integration

The primary objective of ESG integration is to improve the performance of the investments. Actively determining and managing the risks means they can be lowered. The result of this is quantitatively visible to some extent because the investments can perform better if factors are given the right attention. Compared to other investments, this results in a headstart that is measurable.

The effect is also to some extent invisible, because managing factors well in fact prevents problems from arising that result in loss of performance. This result is more difficult to determine because the activities are precisely aimed at events not arising, which events therefore cannot, by definition, be measured. How we deal with this is increasingly focused on establishing connections between the ESG factors and the effects that arise in the portfolio, so that we are able to track down and mitigate the key predictors of weaker future performance. To do this, we investigate the quality and authoritativeness of data in order to draw conclusions. This quantitative research is a field that is changing and evolving.

In order to carry out this research, we have a growing need for data in order to reach an opinion. At the same time we see that as a result of the various requests, the companies in which we invest are suffering some 'reporting fatigue', because there are too many similar initiatives under way all trying for the same aim. Firstly, this has the disadvantage that the companies do not know where they stand and secondly, much time and energy has to be put into duplicating something that has already been done. We would prefer to see this energy consolidated and put into improving the frameworks already in place. That is why we opt to tie ourselves to just a limited number of specific frameworks in which we want to actively play a role so as to make these better and more broadly applicable. Towards the companies, we are clear on what frameworks we use and we are transparent about what we do with the information.

ESG integration from 2020 onwards

Over the past ten years, the requirements stipulated for responsible investments have increased, be it through regulations, voluntary standards or simply because of stakeholders' expectations. ESG integration is a constant process aimed at ensuring that all decisions and changes on the policy level are implemented by all of PGGM's investment teams. After all, this is where it is put into practice and it is a crucial process if we want to prevent 'green-washing' and empty promises.

Every year, we use an internal system to gauge the general willingness and capacity of the investment teams to integrate ESG factors in the investment process (the Maturity Matrix). In 2020, a transparent weighing framework (for ESG versus other investment factors) will also be worked on, along with specific criteria for the integration of material and/or normative ESG factors. The first is determined with reference to the 'materiality map' of the Sustainable Accounting Standards Board (SASB). A database is being set up for the various asset classes. This will compile key data that allow us to monitor material factors, test data and learn from experiences. It will also strengthen the consistency of the execution of ESG integration among the various investment teams, allowing knowledge amassed to be used across the board. The second, normative ESG topics will be dealt with in guidelines.

Voorbeelden van ESG-integratie	
Private Markten - Infrastructuur - Private Real Estate - Private Equity - Credit Risk Sharing - Insurance Linked	- Selectie managers (ESG-assessment) - Due Dilligence - Monitoring en engagement GP, Fund manager en onderneming/asset - Incident reporting en ESG KPI-reporting
Publieke Markten - Long-Term Equity Strategy - Systematic Equity Strategies - Listed Real Estate - IG Credits - Emerging Market Credits - Rates - Treasury & trading	- Actieve, directe selectie van ondernemingen - Monitoring (ESG-screening en duurzaamheidsladder) - Engagement in credits and equity - Stemmen - BOA impact universum - CO_2-index
External Management	- Selecteren, monitoring en beheren van externe managers op ESG-integratie - Reporting

Active shareholding in public markets

As an investor with a long-term horizon, PGGM is a shareholder in approximately 2,700 listed companies. We actively use our influence as a shareholder to achieve improvements in the ESG field, thereby contributing to the quality, sustainability and continuity of companies and markets. We do this in the belief that this ultimately contributes to a better financial and social return on investments for our clients.

Minimum requirements for equity ownership

Equity ownership is not without obligations, since institutional investors worldwide increasingly have to meet minimum requirements stipulated by legislation and regulations. For PGGM and its clients, these minimum requirements are set out in the applicable Dutch laws and regulations and in the Dutch Corporate Governance Code. Through our behaviour as an active shareholder in all markets in which we invest, we aim to set an example for other private and institutional investors.

For the implementation of active equity ownership, PGGM adheres to the standards and principles of various organisations, such as:

- the active equity ownership principle set out in the Principles for Responsible Investment (PRI)
- the Eumedion Best Practices for Engaged Share-Ownership
- the principles of the UN Global Compact
- the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD) and the United Nations Guiding Principles on Business and Human Rights (UNGP).

Engagement with companies and market parties

Distribution of engagement activities with companies by region in 2019	Number
Europe (excl. the Netherlands)	29
North America	44
Asia	36
Rest of the World	6
The Netherlands	3
Total	**118**

Distribution of engagement activities with companies by area of focus in 2019	Number
Climate change, pollution and emissions	22
Human rights	34
Health care	18
Good corporate governance	51
Total	**125**

Distribution of market engagement activities by region in 2019	Number
Asia	3
The Netherlands	1
Rest of the World	1
Total	**5**

Distribution of market engagement activities by area of focus in 2019	Number
Good corporate governance	5
Total	**5**

On behalf of our clients, we call companies and market parties to account for their policy and activities. Through this dialogue we want to achieve ESG-related improvements. Committed equity ownership requires perseverance and calls for the use of high-quality knowledge to be able to conduct fruitful dialogue with a company's management and exert maximum influence. PGGM has invested in this for years, with good results. We believe, and are not alone in thinking this, that companies benefit from critical, active shareholders who keep companies on their toes and encourage more steering towards sustainability. In this context, we work to form coalitions for engaging in this dialogue jointly with other institutional investors. This increases our impact because the total share concerned is greater.

The sheer number of companies in which PGGM invests necessitates choices as to with which companies we can engage in active dialogue. After all, there are too many to be able to effectively engage in dialogue with everyone. We aim to create focus in our engagement activities. To this end, we have worked with our clients to set up engagement programmes aimed at aspects within the following topics: Climate change, pollution and emissions; Water scarcity; Health care; Guaranteeing human rights; Good corporate governance; and a Stable financial system.
We make a selection based on a number of criteria. The first selection criterion is the relevance to our clients and their participants. The second criterion is the role that PGGM can play as an investor. Do we have the knowledge in house? We also look at whether the engagement can actually have an impact - is the company open to dialogue? A larger equity stake means more input and, with that, more opportunity to influence a company. The final criterion is the expected contribution to value creation in the long term, for the company, the shareholder and society alike. These criteria are used as a basis to define engagement projects, which are in turn based on data and research by external suppliers. We adopt objectives and timelines in advance for each engagement project. We measure progress on a quarterly basis in this context.

Corporate engagement in 2019

In our dialogue with companies, we focus on businesses where we see ESG opportunities and risks. This can range from setting up a strategy for access to health care in developing countries to implementing a sound human rights policy. The focus is on companies that have a halo effect within their region, sector or supply chain. A few examples of companies with which engagement was conducted or results were achieved in 2019 are given below.

Novartis

A fine example of a company that is doing a lot of good in improving access to health care and at the same time often finds itself under fire is Swiss pharmaceutical company Novartis. This company has for years scored very well on the so-called Access to Medicines Index (to which PGGM is a signatory), a ranking of companies rated for, among other things, their policy and strategy for improving access to medicine in developing countries. Novartis has in this context been (rightly) complimented for years for programmes like 'Novartis Access' (in which some 15 medicines are made available for $1 dollar per month in many poor(er) countries) and the implementation of the so-called 'Novartis Access Principles' (in which accessibility and affordability is already included in the development phase for certain medications). Despite all these excellent projects, Novartis also frequently finds itself in the news because of the price of certain medicines (such as Zolgensma, a pioneering and extremely effective, but very costly, medicine against Spinal Muscular Atrophy (SMA)) and alleged bribery scandals (the 2018 scandal involving Greek politicians, for instance). We see and acknowledge these significant contradictions and therefore broach these issues in our talks with Novartis, with the aim of steering towards improvements.

ASR

In the Netherlands, in relation to corporate governance we work together with other large investors as part of Eumedion. PGGM is a lead investor for a number of financial companies because we believe that a healthy financial sector is important. ASR is one of the companies with which with we had intensive contact during 2019, specifically around the annual shareholder meeting that took place in May. One of the topics we discussed in 2019 was ASR's new remuneration policy. We were involved in the process early, which gave us the room to provide feedback on the plans. The outcome is a remuneration policy that is in line with our expectations. The fixed salary is sufficient remuneration for directors for performing their position and for that reason, it was decided not to grant any variable remuneration. The targets are also clear now, and it has been agreed how much the salary/remuneration can increase at a maximum in the coming years. This takes into account the increase in pay throughout the rest of the organisation. We are pleased with the result - especially with the way in which ASR carefully discussed the new plans with all the parties involved.

CBS Corporation
PGGM engaged with CBS in 2018 in collaboration with the Coalition of Six, a coalition of Dutch, British, Canadian and US investors (with a joint value of 2.5 billion USD). This coalition focuses on the composition and functioning of the management boards of large US companies. Chairman/CEO of CBS Corporation, Mr Leslie Moonves, resigned from his board position in 2018 after accusations of sexual harassment and abuse. The roles of CEO and chairman were definitively split in 2019 and new board members were appointed. The company also decided to make the composition of the senior management significantly more independent by replacing six long sitting directors with independent members. Moonves was also denied a generous exit package, at the insistence of PGGM and other investors.

Engagement in relation to incidents

In addition to engagement in relation to the topics mentioned above, PGGM also engages with companies on incidents. [2] The seriousness of the situation is an important selection criterion in this context. We also conduct dialogue with companies that commit serious violations of international standards in relation to human rights, society, labour and the environment. We ask these companies to put a stop to the violations, to ensure remedial measures for the victims (people and/or the environment) and to take measures to prevent a re-occurrence of such violations. We receive input from data provider Sustainalytics to determine which companies commit these violations. See an example below of engagement in relation to an incident from 2019.

Vale
PGGM invests in Vale, a mining company that operates primarily in Brazil. In January 2019, a breach occurred in one of the company’s dams near the Brazilian town of Brumandinho, resulting in a mudflow in which 256 people lost their lives and 14 people are still missing. An incident had also taken place in 2015, near a dam in Mariana, Brazil, involving Vale, in which 19 people died. In October PGGM started talks with a delegation from Brazil, which included victims from the Brumandinho disaster.

[2] We have outsourced some of our engagement activities to Sustainalytics.

As a shareholder in Vale, PGGM feels a responsibility, and shoulders that responsibility, for holding Vale to account for its policy and conduct. PGGM does that via three avenues:

1. PGGM is part of a PRI working group of international investors (Principles of Responsible Investment) which talks directly with Vale, most recently on 8 October 2019, about the steps Vale is taking to repair the damage caused and compensate victims and their dependants. The working group is also pushing for Vale to tighten up its policy and take extra measures to prevent these kinds of disasters in the future.
2. Via Sustainalytics, which holds talks with Vale on PGGM's behalf within the Global Standards Engagement programme. This programme consists of engagements based on serious incidents which involve violations of international norms and standards.
3. PGGM supports the 'Safe Disclosure Initiative' set up by the Church of England Pension Board and the Ethical Council of the Swedish AP pension funds. This is focused on the mining sector worldwide and urges transparency on the status of safety and dam maintenance (618 mining companies with 18,000 dams worldwide). PGGM hopes this can contribute to preventing these kinds of disasters in the future, at Vale and at other mining companies.

Market engagement in 2019

It is important for a pension investor that the government and market parties agree on rules that help ensure that good pensions can also be paid out in the long term. Engagement with policy-makers and regulators is therefore part of our role as asset manager. We talk with policy-makers and sector organisations about reliable and efficient regulations and on the development of standards in a number of areas. A few examples of market engagement in 2019 are given below.

Brown to green transition

During the second half of 2019, PGGM joined with the Climate Bond Initiative (CBI) to organise a number of round-table discussions aimed at encouraging a transition by the biggest polluters, such as the steel sector. A working group headed by CBI, with PGGM as sponsor, met twice with institutional investors and steel and raw materials companies to take stock of the possibilities for realising the transition from fossil fuels, like coal, to sustainable energy. During the round-table talks, the possibilities for issuing a green bond for these polluting companies was discussed, along with what criteria this green bond would have to satisfy. Such an instrument could contribute to the transition by these companies from polluting to using clean energy.

Engagement with financiers and owners of coal-fired power stations in Japan

While greenhouse gas emissions in Europe have been (slowly) declining for years and more or less remaining constant in the United States, emissions are still rising significantly in Asia, especially in China and India. Emissions are also rising in a number of developing countries. [Reference the UN's Emissions Gap Report 2019, or another reputable source.] The growing middle class in these countries is an important cause of the increase in energy consumption. The energy in these countries has most likely not been sustainably generated. In poorer countries, the construction of coal-fired power stations is still opted for all too often; these power stations are furthermore subject to less stringent environmental standards than power stations in more developed countries. Banks in China and Japan are important financiers of these new coal-fired power stations. In this context, they are following the government's policy to help provide developing countries with cheap and reliable energy.

This prompted us to start a dialogue with a number of big financiers and owners of coal-fired power stations in Japan. Together with a few other large institutional investors, we voiced our concerns about the construction of new coal-fired power stations. These concerns are both ecological and financial. The power stations usually have a technical life of 30 – 40 years. Given the rapid decrease in the cost of solar and wind energy, there is a good chance that the power stations will become unprofitable well before the end of their technical life, even if the extra costs of (battery) storage for sustainably generated electricity are taken into account. We asked the banks to be reticent to finance new coal-fired power stations and to formulate policy in this regard. We also shared our concerns with other parties involved, including the responsible ministry.

Engagement in relation to Access to Health Care

In 2019, PGGM talked with many companies from the pharmaceutical and other health care-related sectors. The topic of discussion here was what these companies are doing, and even more importantly, what they could be doing, to improve access to health care in developing countries and ensure access is retained in developed markets. Many pharmaceutical companies seem to realise that they need to demonstrate the added value of their medicines and treatments to a much greater extent. We therefore called on them to better chart out, and in due course report on, the impact they have on people's health. To this end, it is important to arrive jointly as a sector at a methodology that can be used to measure the impact. We therefore call explicitly for this in our talks with pharmaceutical companies.
Transparency on the costs of researching and developing new medicines and new price models were also topics of the discussion. As concerns price models, a number of pharmaceutical companies in our focus regions (North America, Europe and Asia) are, in line with our request, already actively working to implement a system of compensations based on outcomes. This means that a direct connection is made between the compensation a pharmaceutical company receives and the individual health outcomes. In other words, a pharmaceutical company is paid more, or in some cases is only paid, if there has been actual measurable improvement in the patient's health. This may not be a solution for all the problems facing health care worldwide, but it does help curtail unnecessary costs and reward actual and meaningful innovation in the sector.

Market engagement in the US: remuneration policy and regulation of voting advisory firms
During the course of 2019, PGGM conducted engagement with the Council of Institutional Investors (CII) and the Securities and Exchange Commission (SEC) in the United States.

The CII is important for PGGM because it works to improve market standards in the US. Over the past two years, PGGM has actively provided input on the CII's new remuneration policy. The CII is critical of performance-based pay. Scientific research shows that the link between the performance of the business and the directors is often poor; the remuneration is too high, too complex and is decided on discretionarily. This is particularly the case for long-term plans (LTIPs). Performance-based plans are susceptible to manipulation, according to the CII. We are pleased with the progress. The CII is calling for a simplified remuneration policy and longer-term focus (at least 5 years) by holding shares, even after leaving the company. The CII also expects more explanation for non-GAAP criteria (generally accepted accounting principles), the independent supervision of the Remuneration Committee and has expressed criticism about share options. PGGM has been pushing for this last point in particular for years.

PGGM receives voting recommendations from voting advisory firms such as ISS and Glass Lewis. These recommendations are important for our voting at shareholder meetings worldwide. We receive voting recommendations drafted in line with the PGGM Global Voting Guidelines. Together with a group of Swedish and Dutch investors, we sent a joint letter to the SEC, the US regulator. The SEC wants to impose additional regulations on voting advisory firms under pressure from the business sector. In concrete terms, this means that the voting recommendations will be considered 'proxy solicitation'. In practice it means that the voting recommendations go to the companies twice before we (the clients of the voting advisory firms) receive the reports/voting recommendations. This means that we receive the voting recommendations later, that they may be less independent and that the services will probably become more expensive. Another consequence is that this raises the threshold for voting advisory firms to enter this market. This while this market is already dominated by heavyweights ISS and Glass Lewis.

Voting

By voting at shareholder meetings of listed companies, we exert our influence as shareholder on the companies in which we invest on behalf of our clients. As a long-term investor, voting allows us to influence the direction the company takes on a number of fronts: strategic, financial and societal. It literally gives us a voice in important decisions by the management of companies.

As a basis for the voting behaviour, every year, together with clients, PGGM draws up the PGGM Voting Guidelines, which lay down our vision in relation to common voting items at shareholder meetings. Given the number of shareholder meetings, our voting is largely automated. The starting point is that we vote as advised by our voting service provider (ISS). These recommendations are based on the PGGM Guidelines. We actively monitor these voting activities based on multiple voting service providers and sources. We vote on the most relevant resolutions ourselves. For each company, PGGM publishes its voting record on a website.

In cases that arise, PGGM also addresses AGMs to reinforce our vote and publicly engage in debate with the companies in which we invest. This is especially the case for Dutch companies. Thanks to our scale as a relatively large investor, we have actual voting power.

PGGM also submits shareholder proposals itself or in cooperation with other investors when we want to spur a company to take action. We regard voting rights as an important part of our engagement and vice versa. Voting rights can, for instance, be used to further flesh out a topic on which engagement has been pursued, or as an escalation strategy to translate lagging engagement progress into a vote against a proposal (for example, a vote against the reappointment of a director).

Making our voice heard at British Petroleum

At the Annual General Meeting (AGM) of shareholders of British Petroleum (BP), there were two climate resolutions on the agenda, one calling for more transparency (submitted by the CA100+ partnership) and one calling for firm climate objectives (submitted by Follow This). We voted for the resolution calling for transparency and abstained from voting on the resolution calling for firm objectives. The main reasons for not voting for firm climate objectives were:

- We believe that limiting the supply of fossil fuels - which Follow This is implicitly asking for - is not the solution for the climate problem. As long as demand for fossil fuels continues, it is not worthwhile or reasonable to prohibit one or a few companies from supplying these fuels. That shifts the problem from one provider to another in a way that does not reduce emissions, but does reduce the market share of the business.
- It is unwise for any company - or for any investor, for that matter - to prepare for just one scenario, especially when the uncertainties (in terms of policy, technology and consumer behaviour) are considerable, and lie largely outside BP’s control.

Like Shell and a few other European energy companies, BP is a frontrunner in the energy sector. BP has been working on the energy transition for some time and wants to play a leading role in the process. In February 2020, the new CEO announced the new strategy: Reimagining energy, Reinventing BP. We believe that in future votes as well, BP’s management deserves investors’ trust and support in implementing this strategy.

Voting in figures

In 2019, we voted at 4,220 meetings of listed companies in which assets of our clients are invested. Based on our clients’ voting policy, over 45,000 proposals were voted on. The figure below shows in which regions and on what topics we voted in 2018.

Distribution of shareholders’ meetings by region in 2019

Distribution of voting behaviour by agenda items in 2019	
The Netherlands	57
Europe (excl. the Netherlands)	675
North America	689
Asia	1,905
Rest of the World	894

Distribution of voting behaviour by agenda items in 2019	
Agenda items where PGGM voted in line with management recommendation	30,729
Agenda items where PGGM voted against management recommendation	15,976

Total number of agenda items	
Shareholder proposals voted in favour	891
Shareholder proposals voted against	585
Shareholder proposals abstentions	58
Total number of shareholder proposals	**1,534**

Distribution of management proposals 2019 (per category)	
Anti-takeover scheme	258
Appointment of directors	25,210
Increase in share capital	4,152
Remuneration	3,706
Mergers and acquisitions	1,757
Other	10,086
Environment & Social	2

Distribution of voting instructions in 2019	
In favour	31,310
Against	13,221

Abstain	2,174

Distribution of voting instructions remuneration proposals North America 2019	
Number of remuneration proposals in the US	701
Number of votes IN FAVOUR	47
Number of votes AGAINST	651
Number of votes ABSTAINED	3

Distribution of shareholder proposals 2019 (per category)	
Remuneration	89
Corporate governance	132
Appointment of directors	811
Health and environment	100
Social conditions	45
Other	357

Exclusions

We want to avoid making investments that are deemed unacceptable to our clients. This is why, in accordance with the PGGM Implementation Guideline, we exclude from the PGGM funds and internally managed mandates any companies that are involved in controversial weapons and tobacco. We also do not invest in government bonds of countries that are subject to sanctions of the UN Security Council and/or the European Union (EU). We can also exclude companies in the event of heightened ESG risks. In such instances, we first attempt to realise improvements by engaging in a dialogue with the company.

If clients wish to apply an even stricter minimum standard for their investments, PGGM will facilitate its implementation. If the participants in the PGGM funds jointly agree on additional exclusion criteria, PGGM will generally apply these to all relevant PGGM funds. In 2013 it was decided to exclude tobacco companies from investments in the PGGM funds. In concrete terms this means that companies engaged in the production of tobacco and/or tobacco products (such as cigarettes, cigars, chewing tobacco, etc.) have been excluded. If the participants reach no agreement on additional exclusion criteria, PGGM will endeavour at the request of individual clients to establish segregated mandates to which additional criteria are applied. Clients can opt to apply these exclusion criteria additionally to external mandates or funds in which investment takes place directly.

Dilemma: passive investing in listed equities

In our pursuit of excellent service provision, we want to keep our costs as low as possible. One of the ways we do this is by investing some of our clients' assets passively in listed equities. Passive investing involves relatively low costs and the broad spread has advantages, such as reduced risk. But it also has the consequence that we are invested in an extremely high number of companies. As a result we are also invested in companies that are criticised by society. Stakeholders such as NGOs or the media call us to account for these investments. This criticism is understandable and useful. It shows that society is concerned about the topics we feel are important too. We are open to discussion and often notice that we do not have a substantive difference of opinion, even though we may choose a different route than the one being called for. Our strategy as investor to encourage movement towards impact investing and, on the other hand, reduce the things we do not want in the benchmark underscores this.

Dilemma: pulling out of fossil fuels

PGGM and our clients are increasingly criticised for our investments in companies in the fossil fuel industry. Fossielvrij published a report entitled 'Voor alles niet schaden' [First do no harm], for instance, charting out our largest client's investments in coal, oil and gas, with the exhortation that these investments be sold. We share the concerns of Fossielvrij and others. Together with our clients, we are trying to contribute to the same objective, a low-fossil-fuel society. But we have different opinions on how this objective can be reached. Simply selling our fossil fuel investments will not automatically result in lower global emissions. The companies will not disappear, but will go to a different owner, who may indeed still see a future in fossil fuels.

We believe that investing in companies that can offer an alternative to fossil fuels has more impact. We are therefore expanding such investments via our investments in a solutions portfolio. At the same time, we encourage existing companies to become more sustainable. We do this through active shareholder dialogue (engagement) and by shifting investments in the energy, utilities and materials sectors from CO_2-intensive to CO_2-efficient companies. We sometimes get our hands dirty doing this, but it is necessary in order to contribute to a cleaner world.

Peek into the practice

We have the in-house-expertise to invest our clients' assets in line with their wishes. In doing this, we work with leading managers worldwide and also have our own investment teams. These internal investment

teams help to keep our total costs low and ensure tighter control of how mandates are carried out. The investment teams also screen the investments for relevant ESG factors. In this they are supported by the Responsible Investment team. In order to give an impression of these investment teams, we highlight a few of them below.

Infrastructure

Our infrastructure team invests in 'real assets' for our clients. These include investments in energy, roads and bridges, for instance.

Strategy

The team behind the infrastructure portfolio follows a direct investment strategy. The strategy is focused on building a large, diversified portfolio in a manageable, comprehensible and controllable manner. In doing so, the team endeavours to keep costs as low as possible and strives for stable long-term income. Over the past few years investments in the sustainable energy sector and water sector have also been added to the portfolio as part of this strategy.

The continuous pursuit of efficient business operations is one of our main goals. Infrastructure put this into practice in 2019 among other ways by expanding the functionality of new software. This ensures they are now better supported in analysis and decision making. Not only on the level of individual investments, but increasingly on the level of the entire portfolio as well. This contributes to the service towards our clients.

ESG risks

ESG factors play an important role in the investment processes for the infrastructure team. That is why PGGM Vermogensbeheer is one of the founders of GRESB Infrastructure, an organisation that provides a sustainability benchmark for individual infrastructure investments and for infrastructure fund managers.

Globalvia - an investment of the PGGM Infrastructure Fund - achieved first place in the GRESB Infrastructure benchmark. Globalvia has an active ESG policy in the management of its concessions. The company adheres to ESG principles for the countries in which it operates and on the local level it provides lesson programmes at schools to improve safety on and around roads. For the railway concession, Globalvia managed to reduce its CO_2 emissions by more than 95% since 2015 by switching to clean energy for its electricity consumption. This represents a reduction of 3,180 tonnes of CO_2.

With this Globalvia demonstrates that it is able to contribute to the sustainability objectives within the return requirements of the PGGM Infrastructure Fund as shareholder. This evidences a number of qualities - the ability to select the right strategy, strong financial management and ambitious actions to make business operations more sustainable - which make Globalvia such an attractive investment.

Impact

The infrastructure team hopes the investments will contribute to solutions for societal problems. In 2019, for instance, Infrastructure's portfolio contributes to solutions in relation to water and climate. In 2019 the PGGM Infrastructure Fund invested a sum of USD 601 million in SUEZ Water Resources, a subsidiary of listed company SUEZ. It provides over 2 million people with drinking water in the states of New Jersey, New York, Idaho, Pennsylvania, Delaware and Rhode Island, making it one of the largest private water companies in the US. The PGGM-EDF Renewables portfolio was also expanded by over USD 120 million in 2019. This portfolio contributes to climate solutions and consists of wind farms and solar energy parks in the United States.

Private Real Estate

Real estate is extremely capital intensive and PGGM has the scale and expertise to invest in this sector. This provides our clients and their participants with access to return that would otherwise be impossible. This return consists of dividend and the increase in the value of buildings. By collectively investing in private real estate, the team behind Private Real Estate spreads the risk across different types of buildings, such as offices, homes or shops. We also minimise the costs, such as management costs and tax.

Strategy

A number of reviews in 2019 showed that the team behind Private Real Estate (PRE) was considered 'best in class'. This is excellent recognition which inspires pride in the team, as acknowledgement of a lot of hard work. A number of initiatives were launched to further streamline business operations and thus implement PGGM strategy. A good analysis of the portfolio is an essential part of the investment strategy.

The implementation of eFront in Private Real Estate in 2019 further fleshed out the realisation of a robust and scalable system landscape. PRE also invests time and energy in 'Business Intelligence' (BI) to translate large volumes of available data into valuable information. The realisation that the future belongs to data-driven organisations is becoming more widely recognised and investments in collecting, analysing and sharing data are increasing at PGGM. Private Real Estate was closely involved in setting up a new data management platform, for instance.

ESG risks

PRE regards climate change as a financial risk. A distinction is made here between the physical risk of climate change and the transition risk. PRE has charted out the physical risk of climate change for its global real estate portfolio. This was the result of a cooperation with German re-insurer Munich Re. PRE was also involved in an initiative to gain insight into the transition risk that climate change poses for global real estate portfolios. This initiative was a continuation of the European CRREM project (Carbon Risk Real Estate Monitor), aimed at identifying the 'stranding risk' for real estate and developing 'decarbonisation pathways'.

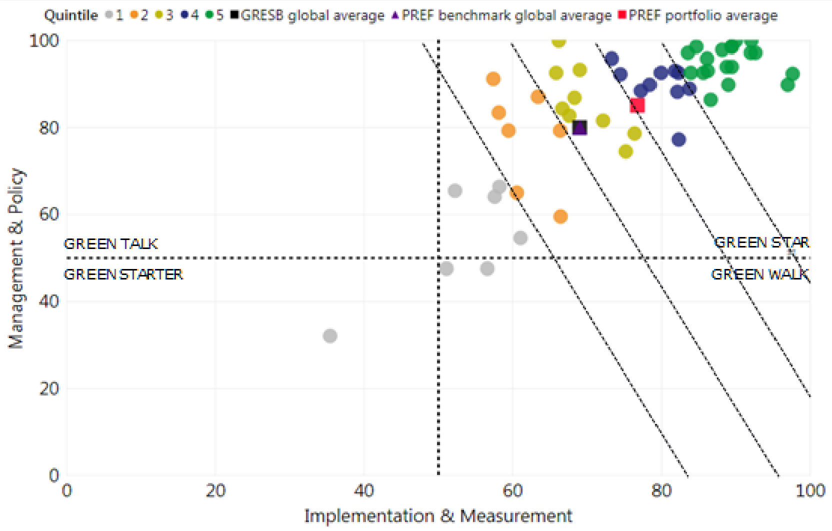
Over the course of 2019, the PGGM PRE team worked closely with Munich Re, one of the largest re-insurance companies, where charting out climate risk has been part of its central operations for decades. What was special about the analysis performed was the level of detail, whereby the exact XY coordinates of the almost 4,000 buildings in which the PGGM Private Real Estate Fund has invested were used. The results of this analysis will be analysed further and as such constitute part of the portfolio optimisation decisions. In the next several years, this analysis will be updated periodically due to purchases/sales in the portfolio and further development of the model at Munich Re, based on new and permanently uncertain climate models.

In addition to an analysis of the physical climate risk, the PGGM PRE team started up a project to better visualise the transition risk. This means that all buildings worldwide will be screened to determine whether they can continue to satisfy regulations for CO_2 emissions and building efficiency in the coming years. This initiative is a continuation of the European CRREM project, whereby pathways for countries outside the European Union are now being determined as well. For this specific project, the PRE team is using the data supplied each year by Global Real Estate Sustainability Benchmark (GRESB) participants. GRESB compares, measures and scores real estate investments worldwide in terms of sustainability. A few of the individual components analysed by PRE are the energy consumption and greenhouse gas emissions of the buildings in which the PGGM Private Real Estate Fund invests. Charting out these values, in combination with monitoring new legislation and regulations on greenhouse gas emissions, will ultimately result in improved insight into the transition risk.

Good result during the annual GRESB survey

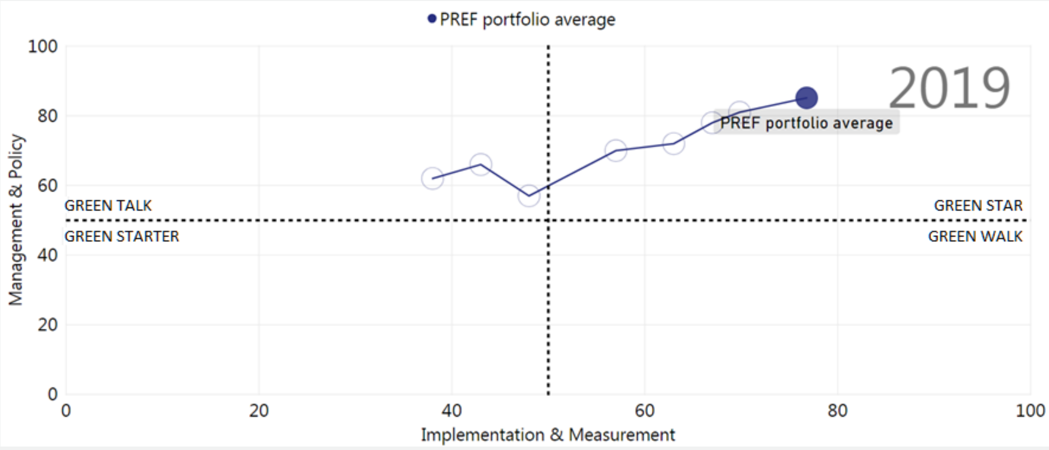
In 2019, the PGGM Private Real Estate Fund (PREF) once again achieved excellent results in the GRESB survey 2019. The score for the total portfolio rose significantly, further outperforming the global GRESB average and the relevant benchmark for non-listed real estate. This is the result of improvements in both policy and implementation. 95% of the funds currently has ‘Green Star’ status and 35% even has the highest possible score of 5 stars. As such, these funds are among the 20% of best-scoring GRESB participants and are shown in figure 1 as green circles. There are also four funds within PREF which can call themselves worldwide sector leaders and eight funds that are sector leaders in the region. The total portfolio received a 4-star rating. The development of the score for PREF over the past several years can be seen in figure 2 below.

Figure 1 ♦ PREF GRESB scores 2019



Source: GRESB and PGGM

Figure 2 ♦ Development in PREF GRESB scores 2012-2019



Source: GRESB and PGGM

Impact

An important component of our engagement in relation to ESG is based on the annual GRESB (Global Real Estate Sustainability Benchmark) ratings. GRESB enables us to compare the scores of participating funds on various ESG aspects with those of other equivalent funds. PREF requires all its managers to participate in the GRESB survey. The PREF investment team uses these results to start a dialogue on sustainability with the management of the companies and funds which are invested in. In this way, efforts are made towards further progress in investments in the area of sustainability. Not only the policy and transparency are important in this context, but also the implementation, and the measurement and reduction of energy consumption, CO_2 emissions, water consumption and waste. Based on the results, an in-depth analysis of the entire portfolio and of each individual fund ensues. This analysis looks beyond the total score by zooming in on the individual components underlying this score. These scores can then be compared to the relevant benchmark. The GRESB analysis thus constitutes the basis for engagement with the various managers in order to further improve the ESG profile of the entire real estate portfolio each year.

In consultation with APG and MN, PGGM decided to classify the positive contribution of real estate investments in relation to sustainability as Sustainable Development Goal (SDG) 11. PRE Fund (PREF) investments with a GRESB score in the top two quintiles (quintiles 4 and 5) are classified as SDI (Sustainable Development Investments). These investments are characterised by good sustainability policy and positive results in terms of energy consumption, CO_2 emissions, water consumption and waste management. Other investments can be eligible for an SDI classification if accessible and/or affordable housing, student and/or senior housing or health care-related real estate is invested in. The number of PREF investments classified as SDI in 2018 was 38, 30 of which qualified based on their GRESB score. Nine new investments were added to the list with respect to the previous year. This puts the total PGGM PREF SDI volume at almost €8 billion, an increase of over 20% compared to the previous year.

PRE is therefore actively involved in a number of sustainability initiatives such as GRESB and the CRREM project. The cooperation with Munich Re also made it possible to chart out the physical risk of climate change for our global real estate portfolio.

Private Equity

The Private Equity team invests our clients' money in non-listed companies. The management costs of this asset class are generally higher than that of other asset classes. The returns are also higher, however.

PGGM Private Equity's ambition is to achieve attractive returns in a diversified portfolio. This portfolio should exceed the public benchmark by 2.5% in the long term, which has actually taken place historically. The portfolio's 10-year average return is presently >15%.

PGGM Private Equity invests in funds, co-investments and secondaries in the Mid-Market and Large Buy-out segment, spread mainly over the developed European and American market, but also the rest of the world. The PE Team attempts to identify the best possible funds and investments in order to add these to the portfolio. We currently have relationships with >70 general partners and we have invested in 100+ funds, 10+ secondaries and 50+ co-investments, spread across Europe (35%), America (46%) and the rest of the world (19%).

Alongside the ambition outlined, responsible investment is also a priority. We manage the Private Equity portfolio of our clients, while also taking into account our impact on the world around us. We recognise that Environmental, Social & Governance (ESG) factors have a material impact on our portfolio's performance. On the one hand it offers possibilities for identifying investment opportunities in that area, but the corresponding risks must also be discovered and mitigated.

We monitor our portfolio closely for, among other things, the performance of the investments made. A close eye is also kept on other important issues that could have an impact on our portfolio, of course. We require ESG reporting from our General Partners, for instance, allowing us to also keep the underlying companies in scope. If necessary, action is taken to push for improvements.

ESG investments also offer opportunities, naturally. This is why a separate team was set up in 2019 to specifically focus, within the PGGM PE Team, on making investments that can be qualified as 'Investing in Solutions'. The team has been allocated 500 million euros over the coming five years, solely for making ESG-related investments that would otherwise have fallen outside our field of view.

Investment in Solutions: National Seating & Mobility

In 2019 the Private Equity team launched a new initiative to find investment opportunities within the BiO topics of climate change, water scarcity, food security and health care. The aim is to invest in companies that contribute positively to solutions in these topics. The company National Seating & Mobility (NSM) is one of these companies in which the Private Equity team has invested (€22 million) and expects to generate an impact in the topic of health care. NSM is a leading provider of complex rehabilitation technologies and accessibility solutions. The company operates in the Canadian and US market, where it is active in 46 of the 50 states. NSM focuses on custom manual and power wheelchairs that improve patients' mobility and day-to-day functioning. The company helps people with mobility-related limitations regain their independence. NSM provides a solution for people of all ages who suffer from a disease, like ALS or MS for instance, or who have lost mobility through other circumstances. The investment contributes to improving patients' quality of life and mental health.

Long Term Equity Strategies

Long Term Equity Strategies (LTES) is the PGGM department that manages the internal portion of the Investing in Solutions via liquid Equities (BOA) mandate. The BOA mandate is a portfolio of listed equities that contribute to solutions for climate change, water scarcity, food security and access to health care.

In 2019, the portfolio return was 30.9%, 0.25% below that of the BOA benchmark.

Strategy

In 2019, the LTES team was assessed by independent external consultant Willis Towers Watson (WTW). WTW determined that the team implements its primary financial objective properly. The investment process has been well designed and the in-depth financial analyses contribute to a well-founded concentrated investment portfolio.

ESG risks

As far as ESG is concerned, LTES focuses mainly on factors that pose a significant risk to PGGM and its clients. This could include child labour or other forms of exploitation, for instance. We are convinced that avoiding these kinds of ESG risks not only results in a better world, but also yields a better financial return in the long term. That is why ESG integration is important for LTES.

The BOA investment universe has been put together based on impact criteria. That means that the universe could include businesses whose ESG risks do not weigh up

against the impact. It is therefore part of the assignment to screen businesses for ESG risks as part of the equities selection process. The ESG analysis includes an assessment of the existing ESG policy, the reporting and management system, along with research using independent external sources on the
company's ESG performance. LTES uses external data sources for this, such as the Internet, annual reports and specialist databases like Sustainalytics B.V. and MSCI ESG Manager. LTES also explicitly examines the outstanding controversies relating to every business. LTES furthermore engages in dialogue with the management of the companies in which we invest. The ultimate result of the ESG analysis constitutes an integral part of the investment case.

Impact
The BOA mandate invests exclusively in listed companies with sufficient impact in the four topics that PFZW and PGGM have identified: climate change, food security, water scarcity and health care. A transition to objectives in terms of the UN's SDGs is currently being prepared. An in-depth ESG risk assessment is performed on the companies in the portfolio, which partly determines the topics for discussion with the management of these companies.

The LTES team is a pioneer in the area of impact investing. It has been active since 2015 in measuring and calculating the external impact of the products and services provided by the listed companies. The team discusses this with the companies and works towards improved reporting on this by the companies themselves. LTES had extensive contact with companies in 2019. LTES also made a start in 2019 on modelling the impact per topic. We hope this can help estimate the impact of companies who do not report on this themselves and create an objective measure of comparison for the companies that do indeed report on impact.

Systematic Equity Strategies

Systematic Equity Strategies (SES) is the department that manages the PGGM Developed Markets Alternative Equity (DMAE). This is a quantitatively determined portfolio with exposure to a certain series of financial factors (such as value, low volatility, quality and size).

In 2019, the return of the DMAE Fund was 2.47% below that of the benchmark, the FTSE Developed Index, which increased by over 30%.

Strategy
In 2019, the team completed the preparations for the integration of a risk model and

a transaction costs model. Both will be put into use in 2020. These are important steps in improving the process and in the direction of setting up the mandate to be best in class, in accordance with the recommendations of internal and external advisers.

ESG risks

The main goal of the SES mandate is to achieve a satisfactory risk-weighted financial return during the expected life of the investment. The SES team also researches ESG factors in relation to their potential value for the investment portfolio. The team made good progress in 2019 on their research into ESG integration. Data from five providers was used for a comparative study into the effects of ESG factors on risk and return, for instance. The outcomes of this research can be used to take further steps in improving the ESG profile of the portfolio without adverse, or perhaps even with positive effects, particularly on the risk.

Impact

PGGM wants to combat climate change by halving the CO_2 emissions of the equities portfolio. Thanks to an optimal weighing of CO_2 intensity and factor scores, in 2019 the DMAE Fund once again remained within the CO_2 reduction targets set.

Investment Grade Credits

The Investment Grade Credits team invests in euro-denominated corporate bonds with a high credit rating for our clients. The goal is to achieve a net return over the credit cycle at least equal to the benchmark. The strategy is based on bottom-up credit selection in which relatively small active positions are taken in order to make up the fund’s management costs. This is used to put together a portfolio comparable to the benchmark. Thanks in part to a turnaround in the ECB policy, last year (2019) was very positive for corporate bonds. Our benchmark achieved a return of 6.25%, the fund achieved a return (after costs) of 6.46%.

ESG risks

Bond investors mainly look at the downside of an investment. In the best case, the investor will get the principal back with the coupon interest, while in the worst case the entire principal could be lost. Our goal is therefore to identify weaker companies early on. Corporate bond investors take ESG factors into account in their analyses by nature. A solid governance structure is essential for managing a business well and environmental risks can also have major financial consequences. We firmly believe that ESG factors affect the downward risk. That is why ESG factors are an important part of the business analysis.

Impact

The bond market has undergone many developments in terms of ESG over the past several years. There is a growing number of issuers issuing green bonds, for instance. Green bonds are bonds whose proceeds can only be used for sustainable projects. Just over 200 billion euros in green bonds were issued in 2019 in total (an increase of 35% compared to 2018). Green bonds were initially mainly issued by banks and utility companies, now there are an increasing number of businesses from other sectors embracing this form of financing, however.

Many new initiatives were launched last year in addition to green bonds. Different types of bonds, such as SDG-linked bonds, Climate Action bonds and Circular Economy bonds, were issued. Italian utility company Enel issued the first SDG-linked bond in 2019. The coupon on this bond is linked to the attainment of a number of objectives based on the United Nations Sustainable Development Goals. This bond met with very mixed responses in the financial market. There were vocal proponents and opponents to the bond. Proponents applauded the initiative because it would give the company a financial incentive to achieve the objective. Opponents on the other hand disapproved because bond holders would now be rewarded if the company failed to achieve the objectives. We are one of the proponents of the construction and consider it positive that a company commits to ambitious objectives linked to the SDGs. We therefore participated in this new transaction.

A total of 950 million euros in the fund is now invested in companies that contribute to a better world, so-called BiO investments. This represents approximately 20% of the total fund. We try to hold talks at least once a year with every company in which we invest. During these talks, we discuss both regular developments and ESG developments in the business. We also engage on specific ESG topics with businesses where we want to see fundamental progress, such as Volkswagen, for instance. We see that more and more parties are transparent in their reporting on their ESG objectives and activities. There is also a growing number of parties that provide detailed impact analyses of their activities. We expect that this trend will continue and that an increasing number of companies will measure and report on their impact in the future, making this an even more important factor in the business analysis.

Client Portfolio Analysis and Management

The CPAM department is part of Fiduciary Management and functions in this context as first-line risk manager for the total portfolio. The Client Portfolio Management team (CPM) coordinates the total portfolio and proactively informs clients about important developments in the portfolio in relation to signals from the environment picked up by the Economic and Financial Markets Research team (EFMR).

Environment: The Economic and Financial Markets Research team

Financial markets are interconnected and changes in these markets can affect the entire portfolio, without distinguishing between asset classes and mandates. That is why it necessary for a central research capacity to support the PGGM organisation in detecting and classifying signals from the environment in order to assess these for potential impact on client portfolios. The Economic and Financial Markets Research team conducts research into the macroeconomic environment and financial markets. The team prepares PGGM's company view in relation to macroeconomic expectations, country risks and the valuations of asset classes. In addition to periodic research reports like the Environment Monitor and country risk analyses, the team carries out thematic studies that anticipate current events in the economy and financial markets.

Portfolio: The Client Portfolio Management team

Daily monitoring and coordination of clients' total portfolios is essential for the fiduciary management task. Being able to adjust course and intervene based on an overview of the total portfolio and having insight into cross-links is important in this context. It is also important to maintain good insight into the sum total of all the different mandates of our clients.
What (desired or undesired) tilt, concentrations and (factor) exposure does this create on the total level? What anticipatory measures should we take in the rebalancing of the expected cash flows to minimise costs and to reap a rebalancing premium?

We must be able to answer these questions if we are to be demonstrably in control. It is important to centralise coordination of the total portfolio. Internally at CPM, close to the execution.

In concrete terms at PGGM, managing the client portfolio means:

- Allocation management at the total portfolio level, including rebalancing. CPM also proactively communicates to clients about the rebalancing.

- Having insight into relevant total exposures, risk and return factors that influence PFZW's total portfolio.
- Having insight into the underlying investments in the portfolio.
- Managing investments that no longer fit within our clients' strategic allocation (based on a philosophy of phasing out with tact and opportunity costs in relation to alternative risks and return in the total portfolio).

By functioning as the central contact for this, CPM enables clients to constantly monitor the total portfolio.

External Management

Within PGGM, the External Management department is responsible for the selection and monitoring of public markets portfolios, including Listed Real Estate and excluding the Interest Rate Hedging Mandate, the Overlay mandates, the PGGM Government Bond Fund and mortgages mandate. 32 external portfolios are managed and eight internal portfolios are monitored with total assets of EUR 123.75 billion.

	External (billion eur)	Internal (billion eur)
Developed markets equities	32.1	
Developed markets alternative equities	14.1	12.6
Emerging markets equities	10.5	
Investing in Solutions Equities	2.3	1.5
Listed real estate	0.2	14.6
Corporate bonds developed markets	1.2	5.3
High Yield	2.9	
Corporate bonds and high yield emerging markets	0.2	4.8
Emerging Markets debt	11.5	1.2
Commodities		8.7
Phase out (Hedge Funds)	0.04	

Emerging Markets Debt Passive Plus

PGGM has been investing in Emerging Markets for many years, both in equities and in fixed-income securities. In the latter category, allocation takes place to, among other things, Emerging Markets government bonds in local currency: the Emerging Markets Debt Local Currency assignment (EMD LC). In this case, an emerging country borrows in its own local currency. The investors in these government loans receive the interest and the investment back in the local currency as well. The risk is that we may not get our money back (credit risk) or that we may get it back but in a currency that has depreciated significantly (currency risk). If the local currency appreciates against the euro, for instance, the value of the government bonds, translated to euros, will increase, however. Because it was initially a relatively new asset class for our clients, a passive implementation was first opted for. Over the past several years this market has developed into a fully-fledged market and PGGM has amassed a great deal of experience in it. After an evaluation of the passive execution of the EMD LC assignment, a start was made in 2019 on expanding the investment restrictions so that managers could make better use of market inefficiencies that regularly occur in the EMD LC market. Thus the Emerging Markets Debt Passive Plus transition was realised.

ESG integration in External Management

Following the equities markets, there is growing realisation in both the High Yield (HY) and Investment Grade Credits (IG) markets of the added value of environmental, social and governance (ESG) integration in the day-to-day investment processes of managers. Especially the attention to environmental and social aspects has become more significant over the past few years. Responsible governance has always been considered an important component in credit analysis. For all managers selected by PGGM, ESG is integrated in the investment process and PGGM's manager selection team supervises the maintenance and progress of this. We see better awareness and progress at all PGGM HY and IG managers. We see that one of the PGGM HY managers, for instance, Columbia Threadneedle, clearly occupies a leading role in the HY market. An important factor in the progress and speed at which Columbia Threadneedle further developed ESG in its business is the (expressed) management conviction, accompanied by substantial investments in IT (to combine data). These data are essential to gain better insight into the various business drivers and their future-readiness in the energy transition, for instance. These insights then result in internal scores as input for the overall credit score and the ultimate portfolio composition. The managers also have the latitude to invest in green bonds, which have become an institutionalised product.

CO_2-optimised benchmark transition realised

'Halving the portfolio's negative footprint' was one of the initiatives from the 2020

Investment Policy stemming from the Investment Framework of our largest client, PFZW. Companies with high CO_2 emissions have therefore been sold and the money has been reinvested sector-neutrally in companies with relatively limited CO_2 emissions. The existing risk-return profile has been maintained. This implements the conviction that a sustainable, liveable world can generate adequate return in the long term.

Global Diversity Initiative
Legal & General Investment Management (LGIM) has taken a trailblazing role in a broad coalition with a total of $2.5 trillion in assets under management (AUM), in which PGGM also actively participates. The goal is to promote the diversity of companies in the S&P500. So a constructive dialogue with the companies from the S&P500 was started. In this context, the coalition mainly focused on the following four points: disclosure, improvements, hiring policy procedures and inclusiveness in the composition of the board. One of the successes has been that 51 of the 72 companies have appointed at least 1 woman to the board.

Engagement in relation to impact
The Investing in Solutions via Listed Equities mandate went live in 2015. Further on in this report you can read more about how we realise good financial returns via Investing in Solutions and at the same time have a tangible impact on creating a sustainable world. From the start, via this avenue the allocation has been steered to companies whose products and services contribute to solutions for the topics of climate, health care, water scarcity and food security. Both departments performing this mandate (PGGM Equities and UBS Asset Management) are increasingly pressing home the impact ambition through targeted engagement with companies in the portfolio. After a company's standing in relation to awareness and measuring the impact of its products and services has been assessed, engagement objectives are formulated for each company. We hope this helps achieve better and more uniform reporting on the impact realised and that where possible, impact objectives are given a more integral place in the business operations. As part of the engagement process, the progress on this point is monitored and the company is advised on this.

Outlook: Challenges and opportunities for 2020

At the time of writing of this annual report in March 2020, PGGM faced one of the biggest challenges in its existence: the outbreak of the coronavirus pandemic. Although we are well-prepared for the various scenarios relating to potential disruptions of the normal course of business, it became clear to us at an early stage, well before the WHO announced the pandemic, that we would need to take radical measures.

The pandemic will certainly have major consequences for the economy as well as for the public and for social life. In particular, a difficult period has begun for the health care and welfare sector, with which we feel such a close connection. The utmost will be demanded of countless health care professionals for whom we administer pensions.
There was already an immediate major impact on the assets of our clients and the coverage of the pension funds was put under pressure. We are doing everything possible to support them with this and to assure the continuity of PGGM and our service provision. We also complied with the government's call to facilitate work from home wherever possible and the necessary IT and other support was quickly arranged. Only a few employees remain at the office for critical processes that can only be performed there. Within a very short space of time, working from home reached a level not previously seen at PGGM and the organisation is preparing to continue to serve the interests of clients and their millions of participants in a time of unprecedented dynamism and uncertainty. Without knowing how long this crisis will last or how deep its effect will be, our organisation is showing determination to address it.
For the time being, we are not seeing concrete major financial consequences of the coronavirus crisis for PGGM's business operations. It is conceivable that arrears will arise in the work flow if the coronavirus measures last for a longer period. These will then have to be caught up at a later time, at higher costs. The increase in working from home has also given rise to an increased risk of operational errors. These could possibly also have significant negative financial consequences. In order to minimise the risk of operational errors, the PGGM office remains open with limited staffing. There is also increased attention to continued application of the necessary operational control mechanisms.

It can also be reported that the work for our clients (pension funds) continues in full and contacts have been intensified. Customer demand, and consequently the jobs, are therefore assured. Our clients are also sufficiently solvent, so that no payment risk arises. In addition, we are maintaining close contacts with our suppliers to ensure the continuity of their services to us for after the end of the coronavirus measures.

The causes for the optimism at the end of last year are, for the rest, still there: a truce in the trade war between China and the US and improved financial conditions thanks to the turnaround to a more relaxed monetary policy in many developed and emerging economies. The contraction in production in industry has also caused significantly lower inventories, which is normally positive for the industrial growth outlook.

Politically, during the second half of the year, the risk of a hard Brexit and the US presidential elections could cause an increase in volatility.

3. Investing for a sustainable world

Both we and our clients attach great value to responsible investment. So we take environmental, social and governance (ESG) factors into account in all investment decisions. PGGM's philosophy is that responsible investment is essential for the success of an institutional investor in the long term. Only if the impact of the actions that arise from the investment behaviour of our clients is taken into account can our clients realise sustainable returns. The relevance of sustainable investment is particularly important because of the nature of our clients. We work for investors, pension funds, with a long time horizon. This long horizon increases the risk of, for example, climate change. We therefore want to contribute towards a habitable and more sustainable world. After all, it is in that world that the participants of our clients will receive their pensions.

What we mean by responsible investment

Responsible investment has already been an important principle in the determination of the investment policy for many years. This concerns both good and responsible returns. For PGGM and its clients, responsible investment means consciously taking account of the influence of the environment, social factors and good corporate governance (ESG factors) in all investment activities. By agreement with our clients, seven specific focus areas were chosen:

- Climate change, pollution and emissions
- Water shortages
- Health care
- Food security
- Stable financial system
- Good corporate governance
- Safeguarding human rights

Through our activities in the field of responsible investment, we provide for responsible, stable and good investment results that are consistent with our clients' pension ambitions. These activities are founded on the beliefs that (1) responsible investment pays off by producing a positive risk-return profile; (2) sustainable development results in good and stable returns over the long term; and (3) capital is a driving force of sustainable development.

We use six instruments for the execution of responsible investment activities. We apply these instruments for the purpose of (1) promoting social solutions, (2) encouraging companies to make sustainability improvements, and (3) excluding companies that carry out activities that we do not want to support.

What we want to stimulate

1. Investments in Solutions

Investments in solutions for social development (BIOs) are clearly defined investments which not only contribute financially to the returns, but are also intended to generate social added value. We invest in solutions for climate change, water scarcity, food security and health care. Our client PFZW has set us the goal of quadrupling the investments with a positive impact by 2020. This means that in 2020, we want to have invested as much as €20 billion in social solutions. We measure the impact we have on the world via these investments.

2. Investments in the SDGs

The BiO themes are reflected in the Sustainable Development Goals (SDGs) created by the United Nations (UN) in 2015. The UN identified 17 goals that governments, companies and citizens must work on to make and keep the world sustainable and habitable. We will invest more in the SDGs in the future. To that end, we have measured all investments in the SDGs since 2018. We call these Sustainable Development Investments (SDIs).

What we want to improve

3. ESG Integration

The environment, social aspects and the quality of corporate governance can affect our clients' return on investment. Conversely, the companies and agencies in which we invest can have an impact on the world around them. We therefore firmly believe that taking account of ESG factors in the investment processes contributes to good risk management and can ensure that achieving financial returns is coupled with sustainable social improvements.

Our client PFZW has set us the goal of halving the CO_2 emissions caused by the investments in the portfolio by 2020. By selling shares of the most pollutant companies in the most pollutant sectors (energy, materials and utility companies), we reduce the CO_2 emissions of the investment portfolio. We open talks with the companies of which we sell shares and ask them to reduce CO_2 emissions.

On the basis of the following three 'active ownership' activities, we fulfil the rights and responsibilities associated with being a shareholder in listed companies:

4. Voting

Voting is one of the most important rights a shareholder has. We therefore vote on the basis of our own judgement at shareholder meetings. Consequently, we contribute to good corporate governance. For each company, we publish its voting record on a special website.

5. Engagement
As a pension fund service provider we see it as our responsibility to engage with market participants and companies about their policies and activities. This way we attempt to achieve ESG-related improvements.

6. Legal proceedings
When necessary, we institute legal proceedings against companies on behalf of our clients as shareholder to recover investment losses and enforce good corporate conduct.

What we do not want

Exclusions

We want to avoid making investments that are deemed unacceptable to us or our clients. This is why we do not invest in controversial weapons or tobacco. Furthermore, we can exclude investments in companies and countries (government bonds) that violate human rights or that cause serious environmental damage, for example. In such instances, we first attempt to realise improvements by engaging in a dialogue with the company. If that fails, we can proceed with exclusion.

Results 2019

	Assets under management: €252.2 billion
Investment in Solutions	Mandate: at least €20 billion invested in solutions by 2020[3] Progress bar: €17.3 billion of €20 billion [4] New in 2019: €4.5 billion

Priority area	€ invested	New in 2019	Impact in 2018[5]
Climate and environment	8.8 billion	1.5 billion	59.9 million MWH in renewable energy produced and 7.0 million tons of CO_2 emissions avoided
Water	1.9 billion	0.7 billion	5.9 million m3 of water saved and 580 million m3 of water treated
Food	3.1 billion	0.8 billion	49 tons yield improvement 2000 trucks filled with food
Health	4.2 billion	1.5 billion	2.6 million patients treated 15.5 million fewer days of sick leave
Other	0.3 billion		

ESG Integration	Mandate: CO_2 footprint of the investment portfolio halved in 2020[6] Benchmark on 31.12.2014 in the share portfolio: relative CO_2 footprint = 339 tons of CO_2 per million dollars of company revenue. On 31.12.2019, the relative CO_2 footprint = 202 tons of CO_2. **40% less**
Engagement	Engaged 118 companies and 5 market parties in dialogue: • 18 results achieved among companies • 0 results at market parties
Voting	Voted at 4,220 meetings of shareholders 45,171 votes cast

3 On commission from PFZW.

4 For all clients, in both the funds and separate mandates. The amounts concern the invested assets and outstanding commitments

5 The impact is measured in relation to the investments as at year-end 2017. Of the €13.7 billion in BiO investments, the impact has been calculated of €10 billion in investments (73% of the total BiO investments). In the previous report, the impact was calculated on 68% of the entire portfolio.

6 On commission from PFZW.

Legal proceedings	€26.9 million of investment loss recovered through legal proceedings
Exclusions	124 companies and government bonds of 13 countries

Investing in solutions

On behalf of its clients, PGGM deploys the steering power of money for a sustainable and habitable world. In 2014, our biggest client PFZW issued the mandate to realise investments of €20 billion in 2020 in solutions for four social issues, i.e. climate change, water shortages, food security and health care. These targeted investments, which we call Investments in Solutions (BiO), not only contribute financially to the returns for our clients, but also create social added value[7]. At the end of 2019, a total of €18.3 billion had been invested in solutions for these themes.

These themes are reflected in the SDGs created by the UN in 2015. The UN identified 17 goals that governments, companies and citizens must work on to make and keep the world sustainable and habitable. In order to follow these goals, PFZW undertook to take the SDGs as a guide in the new Investment Policy, which runs from 2020 to 2025. From 2020, under a mandate from PFZW, PGGM will invest more in the SDGs. To that end, we have measured all investments in the SDGs since 2018. Through the dependence of these figures on the annual reports of companies, the data always lags by one year. At the end of 2018, the amount was €38 billion, or 18% of the total assets under management. This is €4 billion more than at year-end 2017.

In the world of responsible investment, the focus is increasingly shifting from financial performance to results that provide an insight into the social value of the investments. In addition to the financial return, what is the actual social impact of responsible investment?

Investments in Solutions in 2019

Various BIOs were made in 2019. See some striking examples from 2019 below.

Green bond Enel

---

[7] To comply with the BiO criteria, an investment must have an actual positive social impact on at least one of the four areas of focus eligible for investment. The investment's contribution to a solution must be substantial and the social impact must also be tangible: for the company or the project we require that the real impact of the solution is measured, managed and reported. See our website for the criteria

With this bond, Enel finances and refinances green projects that help to mitigate climate change and protect natural resources. Enel's strategic plan (2019-2021) includes the goal to sharply increase renewable energy capacity from 42.9GW in 2019 to 53.9GW in 2021, so that the percentage of emission-free production rises from 48% to 62% in the same period.

Green Bond of the Dutch State: first green bond of the Dutch State
In May, the Netherlands became the first government with an AAA rating to issue a green government bond. This bond had a maturity of 20 years and a size of €6 billion. The government expenditure financed with this concerns renewable energy, energy efficiency, sustainable transport and also climate adaptation (the Delta fund). In addition to a report on how the funds are spent, the Dutch State will also report on the estimated impact of the expenditure. The Minister wishes to emphasise the dark green character of the bond with a certificate from the Climate Bonds Initiative, in which PGGM is also a partner.

Paine Schwartz Food Chain Fund 5: part of the new Private Equity sub-mandate
In 2019, PGGM PE committed to the Paine Schwartz Partners (PSP) Food Chain Fund 5. PSP is a leading investor in the food and agricultural sector and focuses on companies that contribute towards sustainable and responsible food production. Examples of this include companies active in organic fruit production, water-saving irrigation systems and environmentally-friendly pesticides. In addition to financial returns, PSP also devotes attention to the positive impact of its investments on the environment and society.

SCW Systems
In 2019, PGGM acquired a minority interest in SCW Systems in order to upscale its 'super-critical water gasification'. This is a revolutionary technology developed in the Netherlands, which converts (wet) organic residual and waste flows primarily into green methane and hydrogen. This conversion takes place under high pressure at high temperatures, so that it can be injected into the existing gas infrastructure without further distribution restrictions.

Tomra
The Norwegian company TOMRA produces the machines with which drinks packaging is collected for re-use. TOMRA uses the same technology in machines for recycling waste (such as plastic) and sorting different food products, such as fruit, grains and potatoes. TOMRA is a world leader in both fields and is consequently leading in the upcoming circular economy.

Société du Grand Paris Green Bond
Société du Grand Paris (SGP) was formed in 2010 especially to build the Grand Paris

Express transport network. This is Europe's largest infrastructure project, which will expand the 400-kilometre Paris metro network by 200 kilometres of extra track and 68 new metro stations. SGP is wholly-owned by the French State and has the same credit rating and is expected to have more than €35 billion in investment expenditure. These are largely financed with green bonds, as accessible public transport makes a substantial contribution to the climate goals.

Apple Green Bond
In the fourth quarter of 2019, Apple issued a green bond with a value of €1 billion. With this, Apple finances projects relating to renewable energy and efficient energy consumption in the production process. The Investment Grade Credit team acquired an allocation in this green bond of €17 million.

The ambitious task that we carry out for our client

The task that we carry out for our biggest client, PFZW, is to have at least €20 billion invested in solutions in 2020. At year-end 2019, a total of €17.3 billion was invested in solutions. The ambition lies partly in the fact that we operate in a competitive market and that the investments that comply with the criteria are unfortunately not always available. Part of the classification of an investment as a BiO is that the social impact is measured and reported each year, or there is at least willingness to do so. This concerns data such as megawatts of sustainable energy generated, number of people with access to affordable care, number of litres of treated water, etc. As a result of this, we now have five years of valuable experience with measuring the social impact of our BiO investments.
We invest in solutions via a specific listed shares mandate that we call Investment in Solutions via Liquid Shares (BOA). The total capital invested in this is €3.7 billion. We also invest in solutions via other investment classes, such as real estate and infrastructure.

The social impact of Investing in Solutions

The knowledge that a certain amount of capital is invested in something expected to make a positive social contribution is not enough. This only measures good intentions. We want to establish whether there has actually been a positive impact in terms of a measurable improvement, for this makes an investment an impact investment. Impact calculations are therefore essential. Not only do they help us to communicate the positive impact, but they also benefit the credibility of impact investment. In this way, sustainability can be taken into account and assessed in decision-making.

We therefore specifically seek investments that make a substantial and measurable[8] contribution and report on the positive impact of these investments every year. In addition to the financial returns, we calculate the impact of these investments and state how the BIOs have contributed towards the selected themes. [9]
Further explanations of the calculation of impact are provided on our website.

Impact graph of investments in solutions

Investment in Solutions	Mandate: at least €20 billion invested in solutions by 2020 Progress bar: €17.3 billion of €20 billion New in 2019: €4.5 billion			
	Priority area	**€ invested**	**New in 2019**	**Impact in 2018**
	Climate and environment	8.8 billion	1.5 billion	*See the overview below*
	Water	1.9 billion	0.7 billion	*See the overview below*
	Food	3.1 billion	0.8 billion	*See the overview below*
	Health	4.2 billion	1.5 billion	*See the overview below*
	Other	0.3 billion		

Investing in Solutions			
	Including in	Results including	Impact in 2018 equivalent to
Total €	8.8 billion	59.9 million MWH of renewable energy generated	Average electricity consumption of 17.8 million households per year
New €	1.5 billion	7.0 million tons of CO_2 emissions avoided	The avoided CO_2 emissions are equivalent to the

[8] Our criterion is that companies must measure the impact or be willing to do this in the future. With this, we aim to stimulate industry to measure and report on impact.
[9] For the calculation of the social impact of investments, we are dependent on the impact data reported by companies. As a result, our impact calculations trail the portfolio reference date by one year.

		average CO_2 emissions of 307,000 households per year.

Investing in Water Solutions			
	Including in	Results including	Impact in 2018 equivalent to
Total €	1.9 billion	5.9 million m^3 water saved	Average water consumption of 128,000 Dutch citizens
New €	0.7 billion	580 million m^3 water treated	The number of litres of treated water is equivalent to an average of 12.4 billion showers

Investing in Food Solutions			
	Including in	Results including	Impact in 2018 equivalent to
Total €	3.1 billion	49 tons yield improvement	2000 trucks filled with food/
New €	0.8 billion		

Investing in Healthcare Solutions		
	Including in	Results including
Total €	4.2 billion	2.6 million patients treated
New €	1.5 billion	15.5 million fewer days of sick leave

Measuring the impact of investments

The essence of BiO is that the impact of the investments in priority themes is measured in tangible units, such as the generation of clean energy in MWh, or energy efficiency improvements in tons of avoided CO_2 emissions (these priority themes - food, health, water, climate and pollution - are largely consistent with SDGs 2, 3, 6, 7 and 12). Although impact measurement is difficult, PGGM keeps to this for two reasons: (i) 'impact' is an improvement for people, society and/or the environment that must be measured in order to avoid impact investment from becoming lip service. The other reason (ii) is that we want to show the pension participants practical, positive results. PGGM's impact measurements are steadily improving, in both breadth and depth: the positive impact of (part of) more and more BIOs is being measured. The quality of impact measurement is also improving. In 2019, the models that convert the revenue from a certain solution (in euros) into impact (in e.g. tons of avoided CO_2 emissions) are rounded off and documented. They have also been developed further for application to individual companies (rather than industrial groups). In some cases, the rough model outcomes already lead via engagement to more accurate impact reports by the companies themselves.

Nevertheless, there are still many methodological questions, including in relation to who exactly benefits (rich versus poor countries or groups), precisely how much difference is made (and in relation to what), how to measure negative impact as well as positive impact and how to avoid duplications in the value chain. In order to arrive at a uniform approach in these cases too, PGGM heads the SDG impact measurement working group in the Sustainable Financing Platform of De Nederlandsche Bank. This working group has about 25 members: asset managers, banks and companies. The 'key indicators' for positive impact that the working group has proposed are brought to the attention of organisations including the Global Reporting Initiative.

PGGM also has a seat on the advisory council of the Impact Management Project (IMP), which seeks to generate global consensus in more general terms around the different ways in which investors can have an impact. PGGM will continue to improve the revenue-to-impact models and the further standardisation of impact investment and impact measurement in 2020.

Challenges of Investments in Solutions

In the world around us there are social challenges that call for funding. The most important is perhaps energy transition. A major energy transition is necessary in order to halt climate change. Major investments are needed in order to bid farewell to fossil fuels and to make energy consumption more sustainable, more efficient and more financially attractive. On the instructions of clients, PGGM actively contributes to this by seeking investments that can play a role here. Investments in Solutions must make a sufficient contribution to both returns and impact in order to remain attractive to our clients. If we encounter such investment opportunities, we are keen to invest in these. A concrete example of this is the interest, announced in early 2019, in acquiring a long-term interest in the Eneco energy company via a joint venture with Shell. Unfortunately, this deal did not go ahead as we were outbid by a Japanese consortium. This shows once again what a challenge it is to find investments that comply with the risk-return characteristics we have agreed with our clients.

Disappointment regarding missing out on the Eneco deal

Chief Investment Officer Private Markets Frank Roeters van Lennep: 'It is disappointing to hear that we miss out on a deal on which an entire PGGM team worked hard for at least two years, in close collaboration with our partner Royal Dutch Shell. This was an effort of the Infrastructure team, together with colleagues from Risk, Legal and Corporate Communications, and we can be proud of what we achieved: an excellent offer, both in financial terms and with regard to the sustainable future of Eneco. The sale of Eneco would have been one of the rare possibilities to make a major investment in the Dutch energy infrastructure with Dutch pension capital. PGGM showed its best side in the process and during this we continually showed ourselves to be a committed long-term investor with sustainability in mind.'

What is an impact investment?

Although we aim for a positive and preferably additional social impact with our Investments in Solutions, our clients, and we as the administrator, have the primary task of providing for a good pension and, therefore, for goods returns for an acceptable risk. We cannot make any concessions on the financial results to be achieved for participants and therefore also cannot maximise a positive social impact at the expense of financial returns. We therefore want to have a positive social impact while retaining returns at commercial rates.

A major social need is not necessarily a good investment opportunity. At present, therefore, the efforts to define the impact of our clients' investments have no influence on the strategic asset allocation: we do not steer for the scale of specific social results. However, measuring the tangible social impact does enable us to make clear where we have a positive impact and whether data are missing for the evaluation of this. We hope that when we do this, more investors will realise that these things are not mutually exclusive: we can realise commercial returns *and* have a positive social impact.

We can also give an important signal to the market when we move part of the assets to companies with an explicit social contribution. The reasoning is that good examples will be followed. In addition, there is what most 'real' impact investors lack and that we (the pension sector) do have: scale.

Towards a more sustainable world: investing in the UN Sustainable Development Goals

The United Nations launched its Sustainable Development Goals (SDG) in September 2015. These are 17 themes with concrete actions that are necessary in order to create a sustainable world in the years to 2030. In recent years, the SDGs have gained more ground and are used by companies and investors to report on their contributions to these global goals.

Although the SDGs appear to create a brand new rainbow landscape, PGGM is no new player on the impact stage. We have been investing on behalf of our clients in solutions (BiO) for climate change and environmental pollution, water shortages, food uncertainty and health care issues since 2014. In such efforts, we not only investigate high-impact investment opportunities, but actively measure the concrete impact of our investment choices. On the basis of our experience with these investment themes, PGGM and APG have jointly developed a framework for the identification of products and services that contribute towards the UN SDGs. We call these Sustainable Development Investments (SDIs).

At the end of 2018, we had invested €38 billion in companies and projects that contribute towards the SDGs. This amounted to about 18% of the total assets under management. Our SDIs have increased by more than 2% in comparison with 2017. In addition to the increased acquisition of green bonds, our investments in real estate showed considerable growth in 2018. This is primarily thanks to the excellent performance in the Global Real Estate Sustainability Benchmark (GRESB). When real estate reached the top two quintiles of the GRESB, it is qualified as an SDI that contributes towards SDG 11 - Sustainable cities and communities.

It should be noted that the SDI framework could gradually evolve. Innovations and new perspectives relating to SDGs enhance the concept of impact. For example, we have seen various new structures in the fixed-interest market. The emphasis has shifted from green bonds to SDG bonds, which look beyond climate-related issues and are directed at broader social themes. In order to keep pace with such developments and at the same time, to coordinate the impact standards still more closely with our colleagues, PGGM and APG joined the Asset Owner Platform for Sustainable Development Investments (SDI-AOP). We are convinced that the Platform will strengthen our SDI efforts and give direction to the financial sector. See the 'future ambitions' section for more information on the SDI-AOP.

Investments that contribute to the SDGs

SDG	Example	Description
SDG 1	Progression (Global Microfinance Equity Fund)	The fund has invested in micro-financing and social housing in developing countries.
SDG 2	Zoetis	Zoetis produces veterinary medicines and vaccines that keep farm animals healthy. The products contribute towards SDG 2 by assuring the productivity of animals.
SDG 3	Sanofi	Sanofi produces medicines. Part of the products are aimed at the WHO's priority diseases, such as lung infections, diphtheria, cholera, tuberculosis and influenza. Other medicines are intended for diseases including cardiovascular disease, diabetes, cancer and epilepsy.
SDG 4	Pearson	Pearson offers products and services for education and student assessment, including digital educational and teaching materials. The Pearson Affordable Learning Fund also offers affordable education for low-income families and marginalised families in developing and developed economies.
SDG 6	Anglian Water	Anglian Water supplies water recycling services for more than six million households and companies. In addition to waste water treatment, the company has installed smart meters in 7,500 premises in the centre of Norwich.
SDG 7	EDF Renewables	EDF Renewables invests in a portfolio of three wind farms and two solar power plants, with a total production capacity of 934 MW.
SDG 9	ComfortDelGro	ComfortDelGro operates public transport services in several different countries. The company also offers specialised engineering and maintenance services for passenger vehicles.
SDG 11	CBRE Dutch Office Fund	CBRE Dutch Office Fund is in the top quintile of the GRESB. The fund's ambition

		is to be a pioneer and initiator in the creation of a sustainable society by offering its tenants a healthy and lively environment. In accordance with this ambition, the general aim is that a scientifically proven reduction in net CO_2 emissions to zero will be realised towards 2035.
SDG 12	Pennon Group	Pennon Group is one of the largest waste processors in the United Kingdom. The company collects an estimated 7 million tons of waste each year. Its subsidiary Viridor has a clear focus on the conversion of waste into raw materials or energy.
SDG 13	Catastrophe bonds	Catastrophe bonds increase resilience and strengthen adaptability in relation to natural disasters and in this way, contribute towards SDG 13.
SDG 15	Conservation Forestry	Conservation Forestry buys forest land and is focused on the commercial production of timber. 85% of the timber is FSC certified. 100% of the land is classified as High Conservation Value Forest.

Partnerships and supra-portfolio activities

In order to stimulate responsible investment and to realise changes together, PGGM plays an active role in different networks and partnerships.

With our investment team, we aim for risk-adjusted returns in the long term. The risk and return on these investments is largely determined by well-functioning markets, economies, sectors and companies. In order to realise a sustainable financial return on our global investments, and due to the exposure to multiple markets and the influence of environmental, social and good corporate governance factors (ESG), we regard this as an important part of its obligation to promote capital markets and improvement of ESG practices. These investments form a cross-section of globally-available investment opportunities. Our activities in the field of market engagement and stimulation are aimed at improvement of mandatory and voluntary standards and practices in the main markets in which we invest.

IMVB Covenant

On 20 December 2018, 70 pension funds, including most of PGGM's clients, signed the '*Internationaal Maatschappelijk Verantwoord Beleggen'* (International Socially Responsible Investment (IMVB)) covenant. In 2019, PGGM supported its clients in the implementation of the IMVB convention. PGGM has defined the extent to which clients already comply with the covenant and where there is still improvement potential. Different projects have also been started to ensure that clients comply with all requirements of the IMVB covenant, including a screening method for the listed share portfolio based on the guidelines of the Organisation for Economic Cooperation and Development (OECD) and the UN Guiding Principles (UNGPs), a new study into the preferences of the PFZW participants relating to responsible investment and the development of ESG policy on theme-based priority areas. PGGM also developed the benchmark for the IMVB covenant for PFZW and BPF Schilders.

In addition, PGGM made an active contribution to cooperation within the covenant. For example, PGGM played the role of rapporteur within the Instrumentarium working group of the IMVB covenant. The Instrumentarium consists of model texts that pension funds can use in policy, contracts with external service providers, monitoring and reporting. The Instrumentarium was published in December 2019. PGGM also actively participates in the 'deep track' of the IMVB covenant, in which pension funds work with social organisations, trade unions and the government on concrete engagement cases. The first engagement case started in 2019 with a mining company. A second case was also selected in the palm oil sector.

Platform Living Wage Financials

In October 2019, PGGM joined the Platform Living Wage Financials (PLWF). Eleven, primarily Dutch, investors work together in the PLWF. They ask the companies in which they invest to make progress towards paying the employees in their supply chain a living wage. A living wage is a fundamental human right. Entering into the dialogue with companies on a living wage is one of the ways in which PGGM realises its engagement programme in the priority area of Human Rights. The members of the platform are currently in discussion about living wages with 44 companies. In September 2019, PLFW was presented with the Active Ownership Project of the Year award by the UN Principles for Responsible Investment (PRI).

Eumedion

PGGM is an active participant in the management, committees and working groups and one of the founders of Eumedion. Eumedion represents our interests and those of our clients and other institutional investors in the fields of corporate governance and sustainability. By conducting talks with relevant policymakers and exerting an influence on relevant Dutch and European laws and regulations, it works to promote good corporate governance and sustainability policy. In order to promote and accommodate engaged and responsible shareholdership, Eumedion drew up the Dutch Stewardship Code. Such partnerships make our efforts in the field of engagement in the home market highly effective and efficient. We welcome the stimulation of a constructive dialogue between ourselves, like-minded organisations and the Dutch listed companies. We aim for similar partnerships in all other major capital markets, in order to increase the impact we aim to achieve with our investments and stewardship activities.

Japan Foreign Exchange and Foreign Trade Act (FEFTA)

On 8 October 2019, the Japanese Ministry of Finance announced new proposals entailing important changes in the current Foreign Exchange and Foreign Trade Act (FEFTA) regime. Although we sympathised with these in as far as the changes were intended to strengthen the country's national security, we took the view that in the form announced, they would be highly damaging to the Japanese capital market and corporate governance.

Together with the Asian Corporate Governance Association (ACGA), PGGM and other foreign investors expressed their deep concern regarding the direction and content of these proposed changes and had contacts with the Ministry of Finance. Although parts of the new regulations required urgent clarification, the changes appeared to mean, among other things, that under the new threshold, investors such as PGGM will have to submit a 'pre-acquisition notice' if they intend to acquire 1% or more of a listed company in a restricted sector, while this threshold was previously set at 10%. Foreign investors intending to influence the management with regard to a number of governance or corporate issues would also have to submit prior notice of their intentions. This could severely restrict our efforts to communicate on matters such as corporate governance or climate change with the companies in Japan in which we participate. The Ministry of Finance entered into a constructive dialogue with us and was very helpful in providing greater clarity regarding the changes, among other things providing an assurance that the changes are fully consistent with the Japanese Stewardship Code. The Ministry of Finance also honoured a request from the market for proper consultation. We have been assured that PGGM will be exempted and can continue its engagement programme in Japan. The intention is that the altered FEFTA will enter into force in May 2020.

Technical Expert Group of the European Union

PGGM has actively contributed to the design of new European regulations for greening the financial sector. PGGM represents the Dutch pensions sector as a member of the Technical Expert Group (TEG). In this group, we worked on matters including the design of a new classification of 'green' economic activities (taxonomy). The objective of this classification is to increase the comparability and investment opportunities of sustainable economic activities. The TEC will present its final report on the taxonomy in March 2020. The TEG will remain in operation as an advisor of the implementation of the taxonomy until September 2020. In September 2020, the TEG will transfer its tasks to a permanent EU Platform for Sustainable Financing (still to be formed).

PGGM, an important player in Brussels

Brenda Kramer, Senior Advisor Responsible Investment
Team Responsible Investment

'I joined PGGM five years ago. What originally attracted me was the emphasis on sustainability. In government, where I had worked on European financial and economic dossiers for ten years, sustainability barely got off the ground. I had and still have the feeling that at PGGM, I can really contribute towards a better world.

I thought that with my change of job, I would be leaving European work behind me, but nothing could have been further from the truth. Two years ago, Brussels put forward an ambitious plan to "green" the European financial sector. A European Expert Group (TEG) was set up to assist the Commission in the development of the plans. And I was asked to become a member of the TEG on behalf of the Dutch pensions sector - and as the only Dutch representative.

Our main mandate was to develop a shared definition of environmentally-friendly activities that contribute towards realisation of the Paris climate agreement. For almost two years, we worked with 35 experts from different professional fields on a classification tool for "green" economic activities - a taxonomy. A "green" encyclopaedia. We also wrote an advisory report for climate-related benchmarks, better sustainability reports and a European standard for green bonds. The taxonomy is a tool for sustainability reports and financial products. The taxonomy can also help companies in the development of sustainable investments and activities, in order to make the transition to a more sustainable economy.

PGGM and the Dutch pensions sector play an important role in Brussels. That's what I discovered in the past two years in the TEG. As a pensions sector, we are constructive, actively work together on shared positions and we have the largest invested pension capital in the EU. If we want, we can make a difference, with input in Brussels and by using the taxonomy to make our investments still more sustainable.'

Legal proceedings

PGGM conducts legal proceedings on behalf of its clients where necessary to recover investment losses and enforce good corporate conduct. We do that as a shareholder in listed companies, both in the Netherlands and abroad. We distinguish here between 'active' and 'passive' proceedings.

We sometimes opt for an active role in legal proceedings if we take the view that a company has acted improperly and our clients have suffered substantial financial losses as a result. In those cases, the main aim is to recover as much as possible of a loss suffered on the investment for our clients. By actively conducting proceedings, we also try to send a signal to the market that the company's behaviour is unacceptable. These active proceedings can last a long time and be extremely costly; however, as our advisers provide support on a 'no cure no pay' basis, we do not run any risk of legal costs. In some proceedings, we content ourselves with 'passive' reporting of our claim. This is a primarily administrative process in which we can recover part of the damage suffered by our clients for minimum input and costs.

In 2019, we conducted nine active legal proceedings on behalf of our clients. Among other things, we joined group proceedings against Danske Bank, a major international bank in Denmark. Danske Bank became involved in a scandal concerning very extensive money laundering practices via the Danske Bank branch in Estonia. Danske Bank has been the subject of administrative and criminal investigations in connection with these money laundering practices since 2016. After the shareholders became aware of the information on these investigations, the market price of Danske Bank fell by tens of billions of euros and investors suffered damages as a result.

Outlook

In 2019, major shifts took place in the working field of responsible investment. The signature of the IMVB covenant at the end of 2018, as well as the Climate Accord signed in 2019 and the European taxonomy for sustainable financing endorse this picture. This was driven by ambitious agendas at both the national and the international level, particularly in relation to the climate.
The developments show that the expectations relating to pension investors in the field of responsible investment are increasingly taking on a mandatory character. It also shows that in addition to the issues in the field of financial materiality, the social issues are playing (or will play) an increasingly emphatic role in the policy of pension funds and their administrators. This is consistent with the character of PGGM as a responsible investor with the aim of a habitable world. In recent years, PGGM has already taken explicit steps for the development of these issues and has played an active role in the realisation of the above initiatives. As a result, we can translate our insights and knowledge into concrete actions. We will continue this in the coming years. In the field of impact, we will continue to invest in the further development and refinement of measurement, with regard to both the financial added value of impact investments (we do this via the SASB framework) and the social added value in relation to the priority areas based on the sustainable development goals (SDGs). There is still a great deal of work to do in collaboration with the partners we have already been working with for some time in order to reach shared insights and realise an acceleration of the knowledge. The implementation will take shape on the basis of the insights already developed here and those still to be acquired, with the development of the IMVB covenant and further increasing the sustainability of the portfolio, in particular, requiring attention. By continuing to build on or setting standards in the interests of our clients, we ensure that we can continue to make a good contribution to the further anchoring of responsible investment in the investment portfolios and to making the results of this transparent.

European ambitions

The new European Commission has announced the ambition to make the EU the first climate-neutral continent in 2050. This political ambition creates an important framework for the future of the financial sector. 2019 already brought new rules relating to the transparency that financial parties must provide on how they deal with sustainability. More rules will be added in the coming years, aimed at increasing the number of sustainable investments. In addition, the EU itself will make extra investments in sustainable sectors. We will closely monitor which new regulations are developed and what the potential effects are of regulations and more government investments.

SDI Asset Owner Platform

Together with APG, PGGM is setting up the Asset Owner Platform for Sustainable Development Investments (SDI-AOP). The intention of the platform is to develop a standard method for the classification of investments and the extent to which these contribute to the Sustainable Development Goals (international goals) of the UN.

That contribution will be determined by the percentage of the revenue that companies realise from activities that the Platform sees as solutions for the SDGs. These include medicines for SDG3, Good Health and Wellbeing.
A special feature of this standard is that it is driven by large and progressive pension funds (carried out by their 'internal' asset managers such as APG and PGGM). The expectation is that this will give direction to the entire investment chain, including other pension funds, asset managers and providers of SDG impact data.

Another special feature of the Asset Owner Platform is that a growing proportion of the impact data are acquired by means of artificial intelligence (AI). This increases the efficiency and transparency of the data gathering.

The Asset Owner Platform will formally start in 2020 with PGGM as a member of the Design Authority and a buyer of comparable SDG impact data for the entire portfolio.

For PGGM, the determination of the SDI revenue is necessary but not enough for what we really want to know: the actual difference that our investments make for people, society and the environment. For reasons of data availability, this is difficult, but ultimately, we also want to measure the results of the investments with the SDI-AOP. A standard methodology for this would be a very important step forward in raising investments that combine a demonstrable impact with a commercial financial return.

4. How we are organised

We invest in our employees and encourage diversity within our organisation. In order to realise our annual targets, we also invest in professionalization of the culture, which is result- and relationship-oriented. In addition, we promote a climate in which colleagues work together more closely in the chain and engage with each other.

As a company, PGGM Vermogensbeheer has no employees. The number of FTEs seconded from PGGM N.V. for PGGM Vermogensbeheer as at 31 December 2019 amounted to 412 FTEs (as at 31 December 2018: 376 FTEs). PGGM Vermogensbeheer also makes use of the staff services available within PGGM, such as Compliance, Enterprise Risk Management, Finance, IT and HR.

Our organisation in figures

Distribution of employees by department	**2019 Numbers**	**2019 FTEs**
PGGM Vermogensbeheer	399	412
Full-time/part-time distribution	2019 Numbers	2019
Full-time	358	90%
Part-time	41	10%
Total	399	100%
	2019 Numbers	2019
Male	309	77%
Female	90	23%
Total	399	100%
Age distribution	**2019 Numbers**	**2019**
Below 25	10	3%
25-34	115	29%
35-44	122	31%
45-54	105	26%
55 and above	47	12%
Total	399	100%
Male/female distribution, management level	**2019 Numbers**	**2019**
Male	22	71%
Female	9	29%
Total	31	100%

Preparing our service provision for the future

The world around us is changing fast, and as an investor and a company, we want to be able to respond to this well. We have a clear goal to be best in class. The realisation of this goal is inseparably connected with the use of data and AI. However, we were trailing in this field. There was insufficient fundamental attention to data within PGGM. As a result, there was a lack of insight into the possibilities that use of data and AI entail. PGGM also did not have a modern infrastructure for working with data and AI.

We want to change this situation. In the past two years, we have realised many changes in the field of data and AI use. We formulated a data policy and, even more importantly, took a number of concrete important steps to realise that policy and to take advantage of the benefits of data and AI use in business operations.

Why AI is so important

We see an important role for AI in our working processes. We therefore devote growing attention to this development. AI enables shorter throughput times, faster gathering of information and better processing of information. A number of concrete examples of how AI can contribute towards daily processes in the near future are presented below:

- AI can provide support through a better insight into transaction costs, both predictively and on the basis of historic pattern recognition.
- Identification of the impact of investments on SDGs.
- Support for and automation of infrastructure processes (in particular for Listed Real Estate).
- Within the Risk department, AI can provide support by making market trends and deviations from the standard (in the case of public investments) transparent faster and by providing understanding of and insight into information for private investments.
- In the back office, AI can be relevant by automatically providing texts and explanations for reports, possibly even in dialogue with the reader.
- Making investment proposals involves dealing with an enormous amount of data. AI can help here by summarising information and making it more transparent.
- Even for a mandate with automated rebalancing, the data management must be in order: AI can provide an insight into data quality.
- PFZW invests in a range of different asset categories. For private markets, speed in decision-making on deals is extremely important. AI can help here by making the enormous volume of information transparent.

AI contributes towards our strategic goal of making the organisation more flexible and efficient and helps us in our drive for best-in-class asset management. We will develop this further in 2020. Some examples of processes in the field of AI and robotization that are now in use at PGGM Vermogensbeheer are presented below.

Concrete approach from Datalab

PGGM is increasingly developing into a data-driven organisation. Data is an integral part of our strategy and our future service provision. Within PGGM, we continually consider how we can use pension- and asset management data safely to improve our service provision or to develop new services. The PGGM Datalab plays an important role in facilitating this process still better. The Datalab approach is distinguished by the deployment of a multi-disciplinary team and a use case-driven approach.
The deployment of a multi-disciplinary team means that not only are data scientists needed for the realisation of a data-driven approach, but also the deployment of a whole series of other disciplines and roles, such as data-engineering, cloud service engineering, security, legal services, compliance, procurement and various trainers. Datalab has brought together all of these disciplines in a single team and deployed it for the realisation of use cases. That was the condition for realising results quickly and for exposing gaps in the infrastructure. Thanks to this approach, Datalab has laid a new foundation and implemented infrastructure, including stakeholder management and permission from our client PFZW to move into the cloud. Through 'use case-driven' operations, the Datalab has addressed and realised dozens of cases, together with colleagues from seven varied teams. In this way, together with the Datalab, we have gained experience with data and AI and have shown the added value through use of data and AI. At the same time, Datalab has organised training courses for employees, so that they gain knowledge and experience relating to the use and the value of new data technologies.

Robotic Process Automation

Within PGGM Vermogensbeheer, we have been actively working on Robotic Process Automation (RPA) since the end of 2018. At present, 24 robots are in production, spread over seven different departments.
RPA is used to automate our business processes and so to improve service provision for our clients. This takes place with the aid of software robots. The robot communicates with the user interface of the relevant application. As a result, a robot can replicate human actions.

A large proportion of these robots are used in the processing of the cost administration. One example of this is a robot that helps in checking invoices of External Managers. Invoice amounts are compared with contractual calculations and if they fall within the margins, the invoice is paid.

Another robot that has realised many savings is the Holding Reconciliation robot. This searches for differences in holding positions by checking the transaction lists. At the same time, it shows the classifications of the transactions.

The objective for the coming year is to automate all repetitive and time-consuming activities within the asset management unit, so that employees can focus on the analytical work.

Datascience Bootcamp

We started work on the Datascience Bootcamp in 2019. In this programme, we teach our employees programming in the Python programming language. This gives them leads with which they can build AI models. They are then able to identify and apply the opportunities that AI entails (they do this in collaboration with the Innovation department and the PGGM Datalab). The programme is divided into different modules. Several dozen employees took part in each module in 2019. In 2020, two modules will be included in the offer of PGGM Academy, which will make them accessible to all PGGM employees.

Governance

Diversity and inclusiveness

We consider diversity within our organisation important. We are convinced that diversely-compiled teams deliver better results and contribute more to the realisation of our vision and strategy.

The more diverse the employees in an organisation, the more talent and competencies it has at its disposal. That makes the organisation stronger, more flexible and effective. This is why we promote diversity. Part of this is our approach aimed at increasing the number of women in influential positions. We have set ourselves the goal of increasing the percentage of women in grade 12 or higher from 17% to 30% by 2023. In order to monitor the progress and send a signal, a Diversity Board has been formed, which also contributes towards inclusiveness.

Diversity and inclusiveness are closely related. Inclusiveness is necessary in order to make use of the power of diversity. Inclusiveness means that employees can be themselves, without fear of deliberate or unconscious exclusion. It means that we have respect for everyone's views and ideas and that we embrace these different views and ideas. In order to create awareness and stimulate inclusive thinking, PGGM organises the Stratego workshop for women. The PGGM Academy also offers different workshops on dealing with cultural differences and bias training courses.

In addition, PGGM pursues an aware recruitment and selection process in which the aim is to ensure that half of the candidates for management positions are women. In 2020, the focus will lie more on Diversity of Ideas in the broadest sense. This means that each unit will draw up its own plan for increasing its diversity. This could be gender diversity, but could also be other forms of diversity. A Diversity Board chaired by an Executive Committee (EC) member, a top-30 member of each unit and a Works Council representative monitors the progress of diversity within PGGM. We have committed to monitoring diversity among our external managers. The Diversity and Inclusiveness working group is currently working on an action plan of which this forms a part.

The composition of the Management Board and the Supervisory Board of PGGM Vermogensbeheer did not comply with the statutory requirements for a balanced distribution of seats in 2019. This law requires that at least 30% of the seats are held by women and at least 30% by men. At present, 20% of the Management Board are women and no women are appointed to the Supervisory Board. With future changes, a balanced distribution of seats will be taken into account where possible.

One change in the Supervisory Board took place in 2019. Paul Boomkamp stepped down. Willem Jan Brinkman has since joined the Supervisory Board.

Corporate sustainability

The EC of PGGM NV has expressed the ambition to play an exemplary role in relation to sustainability and in that regard, aims specifically at three Sustainable Development Goals (SDGs). These are SDG 1 - no poverty, associated with the mission to contribute towards a good pension in a habitable world; SDG 3 - good health and welfare is part of the DNA as a fixed value in the Health Care and Welfare sector; and SDG 13 - climate action underscores the responsibility for a habitable world. PGGM NV takes responsibility here for its climate impact and takes action to reduce its CO_2 emissions. The SDGs are 17 goals and form a reference framework for PGGM NV's sustainability ambitions. They provide a framework and a language for both its investments and its business operations.

For these three SDGs, we want to play a recognisable exemplary role, with a focus on creating multiple positive value in cooperation with partners. On the basis of our license to operate, we should deal responsibly with all aspects of sustainability (i.e.: all 17 SDGs). We aim here to convey a responsible base, in which we strive to minimise our negative impact, compensate for any negative impact and where possible, strive for a positive impact of our activities on SDGs.

Our goal is to limit our CO_2 footprint as far as possible. Travel by car and above all, by air, accounts for a large part of our total CO_2 footprint. It is therefore important that when we travel, we do so as sustainably as possible. PGGM has applied our travel policy.

Remuneration policy

We aim for a transparent, responsible and sustainable remuneration policy: fair remuneration for measurable performance. The way in which performance is achieved (competences and values) is also taken into account in evaluations and consequently, in the remuneration.
The employees who work for PGGM Vermogensbeheer are employed by PGGM N.V. and are therefore subject to PGGM's remuneration policy. PGGM applies a careful, managed and sustainable remuneration policy that is consistent with the strategy, risk appetite, cooperative goals and the core values of PGGM. In the remuneration policy, the interests of the client are key and the long-term interests of PGGM and relevant laws and regulations are taken into account. As a manager of investment institutions, we hold an AIFM licence and on that basis, must comply with European regulations concerning managers of investment institutions (AIFMD/AIFMR), as well as with the provisions concerning remuneration policy set out in the Financial Supervision Act.

Aware remuneration

PGGM is an administrative organisation that aims for healthy financial business operations. PGGM is aware of its social responsibility and acts in accordance with this in its remuneration policy.

Variable remuneration

PGGM grants variable remuneration to senior employees working directly in the investment chain. Other employees are not eligible for variable remuneration. PGGM has limited the maximum variable remuneration to be awarded to 20% of the fixed salary.

Deferred variable income

In addition to one-year variable remuneration, there is the possibility of granting deferred variable income (DVI) to a limited group of employees in the investment chain. DVI is a form of deferred remuneration. This is paid out after a multi-year deferral period after the year in which the key performance indicators (KPIs) applicable to attaining the DVI were achieved. No particularities may have arisen since the granting of the DVI which could prompt discussion as to whether the remuneration should still be granted. The total of the one-year variable remuneration and the DVI on an annual basis can never exceed 100% of the fixed salary. The KPIs for the one-year variable remuneration and DVI must be derived from the objectives of the clients, PGGM, the business unit and the department, and must be at least 50% based on non-financial criteria.

CLA

The collective labour agreement (CLA) expired on 31 December 2019. As there was not yet a new CLA on 1 January 2020, the provisions of the former CLA remained applicable.

Gratuity

Employees who do not receive any form of individual variable remuneration can be awarded a gratuity on account of exceptional dedication and/or performance.

AIFM

The table below shows the remuneration paid to employees working for PGGM Vermogensbeheer (as the manager of the PGGM investment institutions) in 2019 and 2018. The remuneration policy for these employees is shown on the PGGM website.

2019					
Amounts paid out in 2019 (x €1000)	Fixed remuneration	Employer's share of social insurance and pension costs	Variable remuneration	Total Remuneration	Number of employees
Senior management	1,719	171	464	2,354	6
Employees with a significant influence on the risk profile	28,920	4,882	3,600	37,402	186
Other employees	14,506	3,565	568	18,639	210
Total variable remuneration paid out ***	45,145	8,618	4,632	58,395	402

2018					
Amounts paid out in 2018 (x €1000)	Fixed remuneration	Employer's share of social insurance and pension costs	Variable remuneration	Total Remuneration	Number of employees
Senior management	1,997	196	299	2,492	7
Employees with a significant influence on the risk profile	27,167	4,531	2,822	34,520	177
Other employees	12,292	3,338	461	16,091	190
Total variable remuneration paid out ***	41,456	8,065	3,582	53,103	374

Dutch Financial Supervision Act (WFT)

Variable remuneration paid (x €1,000)		
Variable remuneration by type	**2019**	**2018**
One-year variable remuneration investment chain paid out*	3,449	3,208
DVI paid out**	1,048	-
Gratuity paid out	136	104
Flexible year-end bonus paid out	-	270
Total variable remuneration paid out* **	**4,633**	**3582**
Number of entitled employees		
Number of employees per variable remuneration pay-out	**2019**	**2018**
One-year variable remuneration investment chain	183	173
DVI	31	-
Gratuity	49	34
	-	352
Total number of employees entitled	**263**	**559**

* This concerns one-year variable remuneration relating to the preceding financial year. One-year variable remuneration paid out in 2019 therefore relates to the 2018 performance year and one-year variable remuneration paid out in 2018 relates to the 2017 performance year.

** DVI paid out in 2019 relates to the DVI granted in 2014. As a result of a change in the DVI scheme in 2015, no payments took place in 2018.

*** The amounts are exclusive of pension and social insurance contributions.

The publication requirements in accordance with the WFT and AIFMD are shown on the PGGM website.

Subsidiary entities

PGGM Vermogensbeheer has two subsidiaries: PGGM Treasury B.V. (Treasury) and PGGM Australia Nominees Pty Ltd (PAN). These subsidiaries help to make the design of service provision possible.

Participating interests

PGGM Vermogensbeheer holds a 10% interest (2018: 11%) in Sustainalytics Holding B.V. (Sustainalytics). Our capital interests in Sustainalytics fell as a result of a capital expansion of Sustainalytics that took place on 4 January 2019.

We no longer hold an interest in the Nederlandse Investeringsinstelling N.V. (NLII). The NLII was removed from the Commercial Register in December 2019. NLII was dissolved on 1 October 2018. Shareholders decided to dissolve the company as it did not foresee any new investment projects in the Netherlands.

PGGM Advisory Board Responsible Investment (ABRI)

The ABRI is an important advisory body for PGGM and its clients because it is consulted on activities in the field of responsible investment. The ABRI also provides unsolicited advice on social developments. The members are appointed by PGGM and its clients. They represent different professional fields: the financial sector, industry/multinationals, science, government, social organisations and multilateral institutions. The current members of the ABRI are:

- Prof. A. Roobeek
- Mr O. Schellekens
- Mrs A.M.A. van Ardenne-Van der Hoeven
- Prof. N.J. Schrijver
- H.R.H. Prince Carlos de Bourbon de Parme
- Mrs M. van Golstein Brouwers
- 

Changes in the organisation

No far-reaching changes took place in the our organisation during 2019. Staffing was increased in some areas, in view of our drive for best-in-class performance. These expansions contributed to the required robust staffing of the different teams and to the expansion and deepening of our knowledge and skills.

Financial and operating results

The after tax result for the reporting year was €20.6 million (2018: €18.4 million). Total revenue increased by €11.2 million in 2019, from €126.6 million in 2018 to €137.8 million in 2019. The operating expenses of €110.2 million (2018: €102.0 million) largely relate to the costs charged on by PGGM, concerning personnel expenses, accommodation expenses, IT costs and overhead costs.

Equity amounted to €77.6 million as at 31 December 2019 (year-end 2018: €77.0 million). The solvency as at 31 December 2019 amounted to 78.8% (2018: 76.1%). The solvency is determined as the ratio of equity to the balance sheet total. The cash balance was €71.8 million as at 31 December 2019 (31 December 2018: €72.5 million).

Compliance

Compliance concerns the entire organisation. Compliance at PGGM is based on a model with three lines of defence. The management responsible holds primary responsibility. The compliance officers monitor, check and advise the management and employees on Compliance matters, on request or otherwise. The goal of the compliance officers is also to increase knowledge and awareness of ethics, laws and regulations and other compliance-related subjects.

The Compliance department consists of a team of compliance professionals, each with their own account responsibility and/or specialism. The account managers perform the second-line compliance tasks relating to the chain (including the legal entities in this chain). The specialists in the compliance team advise and/or support the account managers in the performance of their tasks.

Integrity

The confidence we are granted by all stakeholders and the parties with which we do business is based on integrity and verifiable compliance with laws and regulations. We pursue an active or proactive compliance and integrity policy that ensures that we comply with integrity standards, laws and regulations and with the requirements of supervisory authorities. As an organisation, PGGM must earn and keep the trust of stakeholders and the parties that it does business with. This goes beyond simply complying with laws and regulations. PGGM itself, its clients and society impose increasingly high standards for good governance, a culture of integrity and behaviour with integrity. This requires managed business operations performed with integrity to a high standard. PGGM is aware that culture plays an increasingly important role in the management of risks. For this reason, it focuses on 'soft controls' (factors that influence behaviour) in the management of risks and the realisation of objectives, as well as 'hard controls' (demonstrable measures in processes and systems). Employees are taught how to deal with integrity issues through integrity sessions.

Compliance with laws and regulations

Compliance with laws and regulations

PGGM monitors developments in laws and regulations pro-actively, through the deployment of a multi-disciplinary team. We do this by identifying changes early, carrying out an impact analysis of these changes and by subsequently implementing the changes in documentation, processes and/or systems and verifying the correctness, completeness and timeliness of the implementation. To transparently account for the way in which we process changes in laws and regulations, the process of implementing changes in laws and regulations has been incorporated as a control measure in the PGGM Standard 3000.

In 2019, no significant incidents occurred in the field of compliance and integrity. We were not involved in any noteworthy legal proceedings or sanctions relating to non-compliance with laws and regulations in 2019. The Netherlands Authority for the Financial Markets (AFM) did issue a warning in connection with failure to demonstrably comply with specific provisions pursuant to the Markets in Financial Instruments Directive (MiFID) II. See the following paragraphs for more information on MiFID II. The mitigating measures are currently being implemented and will continue until the end of the first quarter of 2020.

Developments relating to relevant laws and regulations

PGGM Vermogensbeheer is under the supervision of the AFM and De Nederlandsche Bank (DNB). The AFM granted us a licence in 2014 to manage investment institutions and to offer rights in investment institutions to professional investors. We were also given permission by the AFM to provide certain investment services. The AFM supervises the compliance of PGGM Vermogensbeheer with the licensing requirements and the permanent rules of conduct. DNB supervises our financial solidity. Financial enterprises such as PGGM Vermogensbeheer are increasingly bound by European rules designed to create a level playing field within the European Union. These European rules, such as Regulations and Directives, are usually translated in Dutch laws and regulations, such as the Dutch Financial Supervision Act or the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act. In connection with our service provision and the licences granted to it, the following regulatory developments relevant to us took place.

Markets in Financial Instruments Directive (MiFID II)

In 2018 and 2019, the AFM conducted a MiFID II investigation of 10 companies that provide investment services to professional investors and qualifying counter-parties. The investigation covered matters including compliance with the obligations relating to cost transparency, product governance and commissions. PGGM Vermogensbeheer was one of the selected parties. According to the AFM, between January and July 2018, we did not comply with all cost transparency, product governance and commission obligations and in connection with this, it issued a warning to PGGM Vermogensbeheer. On the basis of our response, some of the AFM's findings were then withdrawn. We used the findings of the AFM and the report published by the AFM with general outcomes of the sector-wide investigation to conduct a thorough assessment of necessary changes in the internal procedures and measures aimed at compliance with MiFID II. PGGM Vermogensbeheer maintains close contacts with the AFM in that regard. The Supervisory Board has discussed the effects of these developments on the business operations and strategic choices with the Management Board.

SRD II

Transparency obligations based on the European Directive concerning shareholders' rights (Directive 2007/36/EC, as amended by Directive 2017/828/EU, 'SRD II'), became applicable for PGGM Vermogensbeheer on 1 December 2019. In general terms, the aim of SRD II is to further increase the engagement of shareholders with the corporate governance of listed companies and to promote transparency between companies and investors. The provisions of the SRD II are partly implemented in the Financial Supervision Act. For us, this means that it must have a shareholder engagement policy available on the website. Among other things, the policy must explain how we supervise matters such as strategy, financial and non-financial performance and risks, the capital structure, social and ecological effects and the corporate governance of the companies in which it invests, as well as the way in which voting rights are exercised. In addition, we will be required to report to our asset management clients at least once a year on matters including how the investment strategy pursued is consistent with the agreements with the asset management client, how the agreements contribute towards the medium to long-term performance of the investment portfolio, the main material medium and long-term risks associated with the investments and the composition, turnover rate and costs of the investment portfolio.

Expectations of AFM regarding outsourcing risks

On 29 November 2019, in a letter to managers of investments institutions such as PGGM Vermogensbeheer, among others, the AFM presented guides relating to the outsourcing of normal tasks. These guides apply in addition to the statutory standards. The AFM expects financial institutions to define (in more detail) whether all outsourcing risks have been identified, analysed, monitored and managed. The AFM also expects financial institutions to have an adequate outsourcing policy, to assess this regularly and to update it where necessary.

AFM and DNB investigations into benchmark-related activities

On 25 September 2019, the AFM and DNB published findings and best practices on the basis of an investigation into the transition to alternative interest benchmarks. The best practices identified by the supervisory authorities include that institutions should have a detailed and complete overview of the use of benchmarks throughout the organisation, as well as an overview of the term of the use of each benchmark, and the formation of a centrally organised project team which oversees and reports on all benchmark-related activities within the institution at the management level.

Investigations by supervisory authorities

PGGM Vermogensbeheer forms part of PGGM which, together with its clients, is subject to several supervisory regimes. PGGM is subject to supervision by DNB, the AFM, the Netherlands Authority for Consumers and Markets (ACM) and the Dutch Data Protection Authority (AP). As a pension administration organisation, PGGM is classified by DNB as a guideline group, as a result of which DNB exercised direct supervision of PGGM in 2019. DNB and the AFM also exercise direct supervision over PGGM Vermogensbeheer. PGGM perceives supervision as professional and as being of great added value, but also notes that the supervision is becoming more intensive and specific, as a result of which the costs of supervision (both internal and external) increased again this year. PGGM underwent various theme-based and specific investigations this year, including in the fields of asset management and ICT.

Corporate Governance Code

The Dutch Corporate Governance Code (‘Code’) applies to all Dutch listed companies. PGGM endorses the principles and best practice provisions of this Code. Despite the fact that PGGM is not a Dutch listed company, it will also voluntarily apply the best practice provisions of the Code itself as far as possible, as a realisation of good corporate governance. PGGM states on its website the extent to which it complies with the principles and best practice provisions in the Code. In the cases in which PGGM diverges from the Code, it also states the reasons for this and the extent of the divergence.

Eumedion and the Dutch Stewardship Code

PGGM is a participant in Eumedion; PGGM takes part in the management, committees and working groups and is one of the founders of Eumedion. Eumedion represents our interests and those of our participants and other institutional investors in the fields of corporate governance and sustainability. By conducting talks with relevant policy-makers and exerting an influence on relevant Dutch and European laws and regulations, it works to promote good corporate governance and sustainability policy. In order to promote and accommodate engaged and responsible shareholdership, Eumedion drew up the Dutch Stewardship Code. Such partnerships make our efforts in the field of engagement in the home market highly effective and efficient. We welcome the stimulation of a constructive dialogue between ourselves, like-minded organisations and the Dutch listed companies. We aim for similar partnerships in all other major capital markets, in order to increase the impact we aim to achieve with our investments and stewardship activities.

PGGM endorses the basic principles recorded in the Stewardship Code. We do our best to comply with the principles and best practices. Where PGGM (partially) diverges from the requirements of the Stewardship Code, it explains the reasons for this and the extent of the divergence on its website.

PGGM Code of Conduct

Supportive, responsible and steadfast. These values are visible and tangible in everything we do. Our conduct in upholding these values is a critical factor in determining the success of PGGM. PGGM believes it has a responsibility toward society to act with care, transparency and integrity. Ensuring there is clarity about how we interact with one another helps us to fulfil this responsibility. Social media and technological developments mean that our conduct and the information we hold are visible to a larger group of people than ever before. Increased requirements and demands from society and regulators in particular place an onus on us to update our current rules of conduct and agreements. We have combined these updated agreements and guidelines in a single document: the PGGM Code of Conduct. Our Code of Conduct is more than a set of rules and instructions designed to maintain trust in the services we provide. The underlying principles and criteria in the code of conduct offer guidance in our interaction with clients, suppliers, colleagues and society in general.

Outlook

From 2020, the functional and technical application management of our applications has been transferred from the central IT organisation to PGGM Vermogensbeheer. This is a first step towards the new management philosophy of assigning responsibilities decentrally, at the lowest possible level in the organisation. The further integration of the application management with our change organisation will take place in the course of 2020.

An important part of implementing the ‘Future-Proof Vermogensbeheer’ programme in the line will also take place in 2020. The aim of this programme is to design flexible and manageable business operations and to prepare PGGM Vermogensbeheer for the potential pension scenarios. The implementation of Future-Proof Vermogensbeheer, in which responsibilities will be assigned more clearly in the organisation, is expected to lead to organisational changes. This will ensure that the responsibilities appropriate to the envisaged product-oriented management match the organisational structure with its organisational units.

At the time of writing of this annual report in March 2020, PGGM faced one of the biggest challenges in its existence: the outbreak of the coronavirus pandemic. Although we are well-prepared for the various scenarios relating to potential disruptions of the normal course of business, it became clear to us at an early stage, well before the WHO announced the pandemic, that we would need to take radical measures.

The pandemic will certainly have major consequences for the economy as well as for the public and for social life. In particular, a difficult period has begun for the health care and welfare sector, with which we feel such a close connection. The utmost will be demanded of countless health care professionals for whom we administer pensions.

There was already an immediate major impact on the assets of our clients and the coverage of the pension funds was put under pressure. We are doing everything possible to support them with this and to assure the continuity of PGGM and our service provision. We also complied with the government's call to facilitate work from home wherever possible and the necessary IT and other support was quickly arranged. Only a few employees remain at the office for critical processes that can only be performed there. Within a very short space of time, working from home reached a level not previously seen at PGGM and the organisation is preparing to continue to serve the interests of clients and their millions of participants in a time of unprecedented dynamism and uncertainty. Without knowing how long this crisis will last or how deep its effect will be, our organisation is showing determination to address it.

For the time being, we are not seeing concrete major financial consequences of the coronavirus crisis for our business operations. It is conceivable that arrears will arise in the work flow if the coronavirus measures last for a longer period. These will then have to be caught up at a later time, at higher costs. The increase in working from home has also given rise to an increased risk of operational errors. These could possibly also have significant negative financial consequences. In order to minimise the risk of operational errors, the PGGM office remains open with limited staffing. There is also increased attention to continued application of the necessary operational control mechanisms.

It can also be reported that the work for our clients (pension funds) continues in full and contacts have been intensified. Customer demand, and consequently the jobs, are therefore assured. Our clients are also sufficiently solvent, so that no payment risk arises. In addition, we are maintaining close contacts with our suppliers to ensure the continuity of their services to us for after the end of the coronavirus measures.

Zeist, 7 April 2020

The Management Board:

Sylvia Butzke

Eloy Lindeijer

Arjen Pasma

Bob Rädecker

Frank Roeters van Lennep

Report of the Supervisory Board

In this Annual Report, the Supervisory Board explains how it carried out its supervisory role and how it supported the Management Board with advice over the past year. In performing their duties, the supervisory directors are guided by the interests of the company and the businesses affiliated with it and the interests of its clients. The report also discusses the most important substantive issues in which the Supervisory Board was involved this year.

2019 was a year focusing on service provision to our clients, re-contracting with PFZW, sharpening the new strategy of PGGM in partnership with PFZW and making PGGM Vermogensbeheer B.V. (Vermogensbeheer) future-proof.

Highlights 2019

Edwin Velzel resumed his work as Chief Executive Officer of PGGM N.V. (PGGM) and Chairman of the Supervisory Board of Vermogensbeheer B.V. on 1 April 2019, after an absence for health reasons since 19 October 2018. During the period to 1 April, the absence regulations in accordance with the Articles of Association were in effect.

Paul Boomkamp stepped down as Chief Financial & Risk Officer of PGGM and as a member of the Supervisory Board of Vermogensbeheer B.V. on 1 September 2019 and left PGGM.

Willem Jan Brinkman was appointed Chief Financial Risk Officer and a member of the Executive Board of PGGM on 29 November 2019. On the basis of this position, he was appointed as a member of the Vermogensbeheer B.V. Supervisory Board on 27 January 2020.

In 2019 intensive and constructive talks were held with the AFM. Matters discussed with the AFM included the way in which asset segregation is applied within PGGM Treasury B.V. (Treasury). Different scenarios were also discussed for the future design of Treasury. Vermogensbeheer has decided that the Treasury will be organised at the client and fund level.

Vermogensbeheer received a warning letter from the AFM with regard to the implementation of MiFID II. Vermogensbeheer has started a process for follow-up of the findings.

The Supervisory Board discussed the effects of these developments on the business operations and the strategic choices with the Management Board.

During 2019, the Supervisory Board received updates on the latest position concerning Brexit and the preparations for this at Vermogensbeheer. An extra Supervisory Board meeting was scheduled for that purpose. It was noted at that meeting that Vermogensbeheer has prepared as well as possible for a no-deal Brexit.

The Supervisory Board devoted close attention to the latest position concerning the Vermogensbeheer Strategy and the re-contracting with PFZW. The 2025 investment policy of PFZW is also in development. The consequences of this will also be reflected in the Vermogensbeheer Strategy. In that regard, the Supervisory Board also discussed the efforts concerning best-in-class Vermogensbeheer and the Future-Proof Vermogensbeheer programme with the Management Board.

In November 2019, the Vermogensbeheer Business Plan (BP), which describes how Vermogensbeheer can develop to become an excellent administrator on the basis of the existing mandate and investment instructions, was discussed with the Management Board. The shared and overall beliefs will also be discussed further with PFZW in that regard, and the Supervisory Board will remain involved in this.

The Supervisory Board also conducted talks on other developments that could influence the service provision to clients and the business operations, such as the Euribor reform and the system change in the Dutch pensions landscape.

Vermogensbeheer has been conducting talks with APG for some time on a partnership in the Sustainable Development Investment initiative. The Supervisory Board was informed about this during the year and expressed its support for this process. The Supervisory Board was also kept informed of developments relating to the participation in Sustainalytics.

The Supervisory Board considered the broader governance debate at PGGM.
The matters discussed included the relationship between the PGGM Supervisory Board PGGM and the Vermogensbeheer Supervisory Board. The possibilities for simplifying the governance of the PGGM group and its subsidiaries were also considered.

The Supervisory Board advised on the impact of the above developments on the organisation, the role and relationships with other entities within the PGGM group and the relationship and communications with the clients of Vermogensbeheer.
Remuneration policy

The Supervisory Board evaluated the remuneration policy and determined that it is managed and complies with laws and regulations. With the current mix of a basically moderate remuneration policy (at the median level) with the specific deployment of additional fixed and variable instruments such as the Personal Market Bonus and Deferred Variable Income, Vermogensbeheer has succeeded in finding a good balance. The remuneration policy of PGGM (including Vermogensbeheer) is currently being reviewed.

Subjects of regular meetings in 2019

The business update and reports on clients, business operations and the supervisory authority are fixed agenda items at every regular meeting. The financial results and the main risks associated with the business operations are reviewed here, on the basis of the different risk management and performance reports and the quarterly responsible investment report.

The Management Board presented the Vermogensbeheer business update on the basis of the performance of the investments, finance, the risk picture and employee satisfaction, supplemented by varying topics such as the annual plan and progress with this, new funds and the findings of the Internal Audit.

At the request of the Supervisory Board, performance was given a more prominent position in the business update. Together with the Management Board, the Supervisory Board considered the coverage, which is under pressure due to falling interest rates despite the good yields.

The Supervisory Board discussed the 2020 SLA negotiations with PFZW with the Management Board, as well as the further specification of the IT spend and long-term support for the staffing per asset class.

With regard to the risk policy, the Supervisory Board discussed matters including the ICAAP and the measures to adjust the risk picture for some risks to the risk propensity again.

In addition to the run, the Supervisory Board also discussed progress with the extensive change portfolio. For example, efront went live, creating a more robust and scalable system landscape.

In December 2018, the annual employee assessment took place and the Supervisory Board stated that it attached great importance to the outcomes and the follow-up of these. Attention was devoted to this at all regular meetings. Behaviour and corporate culture are regarded as important elements for the realisation of the strategic objectives.

The Supervisory Board also receives regular information on developments in the Vermogensbeheer market. The Supervisory Board receives the Vermogensbeheer Highlights every quarter, with developments in the financial markets and at PGGM Vermogensbeheer. In this context, some time is devoted to particular investments that could have a positive or negative effect on the business operations or reputation.

The laws and regulations and their potential impact on the business operations of Vermogensbeheer are also discussed at every meeting. The Supervisory Board discussed matters in this regard including the proposal of the Management Board to develop an internal training programme on the professional skills requirements arising from MiFID II. A training plan was drawn up in relation to the permanent education of the supervisory directors. The Supervisory Board also discussed the proposal for adjustment of the insider trading regulations with the Management Board.

Attendance at regular meetings

The Supervisory Board held regular meetings on four occasions in 2019. An extra Supervisory Board meeting was also convened in order to discuss Brexit and the preparations for this at Vermogensbeheer. In addition, closed meetings were conducted on four occasions. At these meetings, the subjects discussed included the assessment and remuneration of the Management Board.

For health reasons, Edwin Velzel was absent from 19 October 2018 to 1 April 2019. Paul Boomkamp deputised as the chair for Edwin Velzel during the latter's recovery period. The Supervisory Board decided that there was no reason to recruit an ad interim Supervisory Board member as there was already sufficient expertise and independence present in the Supervisory Board.

Apart from the absence referred to above, no supervisory directors were absent from the meetings of the Supervisory Board. A Supervisory Board member of PGGM attended all four of the regular meetings as an observer. In this way, the Supervisory Board of PGGM ensures oversight of the asset management activities.

The regular meetings of the Supervisory Board were conducted in the presence of the Management Board of Vermogensbeheer. The relationship with the Management Board is good and transparent.

The auditors responsible for auditing the financial statements attended the discussion of the Annual Report at the meeting of the Supervisory Board. The Supervisory Board has not appointed any committees.

The Supervisory Board expresses grateful thanks to the Management Board and employees of Vermogensbeheer for their efforts during the 2019 reporting year.

Zeist, 7 April 2020

The Supervisory Board,

Willem Jan Brinkman

Roderick Munsters

Edwin Velzel

Financial statements

Consolidated Financial Statements of PGGM Vermogensbeheer B.V.

Consolidated balance sheet as at 31 December 2019

(before profit appropriation)
(amounts in thousands of euros)

	Ref.	31 December 2019	31 December 2018
Assets			
Fixed assets			
Intangible fixed assets	3	1,289	1,407
Property, plant and equipment	4	12	10
Financial fixed assets	5	1,599	1,599
Total fixed assets		**2,900**	**3,016**
Current assets			
Receivables	6	16,619	21,658
Prepayments and accrued income	7	7,061	4,942
Cash and cash equivalents	8	71,830	72,506
Total current assets		**95,510**	**99,106**
Total assets		**98,410**	**102,122**
Liabilities			
Equity	9		
Paid and called-up capital		100	100
Statutory reserve		5	5
Share Premium Reserve		34,400	34,400
Other reserves		22,477	24,071
Undistributed profit		20,598	18,406
Total equity		**77,580**	**76,982**
Current liabilities	10		
Accounts payable		570	880
Amounts owed to group companies		12,993	22,199
Amounts invoiced in advance		4,468	50
Accruals and deferred income		2,799	2,011
Total current liabilities		**20,830**	**25,140**
Total liabilities		**98,410**	**102,122**

Consolidated income statement for 2019

(amounts in thousands of euros)

	Ref	31 December 2019	31 December 2018
Revenue	**12**		
Net management fees		137,750	126,627
Total operating income		**137,750**	**126,627**
Costs of outsourced work and other external expenses	**13**	12,293	11,816
Personnel expenses	**14**	70,697	62,979
Amortisation of intangible fixed assets, depreciation of property, plant and equipment and impairments	**15**	637	639
Allocated amortisation of intangible fixed assets, depreciation of property, plant and equipment and impairments	**16**	2,021	1,995
Other operating expenses	**17**	24,531	24,576
Total operating expenses		**110,179**	**102,005**
Operating result		**27,571**	**24,622**
Financial expenses		-112	-80
Result before tax		**27,459**	**24,542**
Taxes	**18**	6,861	6,136
Result after tax		**20,598**	**18,406**

Cash flow statement for 2019

(amounts in thousands of euros)

	Ref	2019	2018
Cash flow from operating activities			
Operating result		27,571	24,622
Adjustments for:			
Amortisation, depreciation and impairments	**3,4**	637	639
Changes in working capital		-1,391	12,052
Cash flow from operating activities		**26,817**	**37,313**
Interest expense		-112	-80
Taxes	**18**	-6,861	-6,136
Total cash flow from operating activities		**19,844**	**31,097**
Cash flow from investment activities			
Additions and acquisitions of			
Intangible fixed assets	**3**	-515	-529
Property, plant and equipment	**4**	-5	-1
Total cash flow from investment activities		**-520**	**-530**
Cash flow from financing activities			
Dividend	**9**	-20,000	-15,000
Total cash flow from financing activities		**-20,000**	**-15,000**
Net cash flow		**-676**	**15,567**
Cash assets at the beginning of the period	**8**	72,506	56,939
Cash assets at the end of the period	**8**	71,830	72,506
Changes in cash and cash equivalents		**-676**	**15,567**

Notes to the consolidated financial statements for 2019

1 Information on PGGM Vermogensbeheer B.V.

PGGM Vermogensbeheer B.V. (Vermogensbeheer), was incorporated on 20 July 2007.
Vermogensbeheer has its registered office and principal place of business at Noordweg Noord 150 in Zeist, the Netherlands.

In accordance with Article 2.1 of the articles of association, the objectives of Vermogensbeheer are:

(a) To act as a manager of investment institutions in the broadest sense, which in any event comprises portfolio management, risk management, administration, offering participation rights and activities relating to assets of investment institutions;
(b) To provide investment services, including the management of individual capital, the provision of investment advice and the receipt and transmission of orders relating to financial instruments;
(c) To act as the custodian and administrator of participation rights in investment institutions, or to delegate this task;
(d) To offer life-cycle plans, or to arrange for life-cycle plans to be offered, to employees in the healthcare and welfare sector and to their partners, as well as to former employees employed as such in the aforementioned sector and to their partners, as well as to members of the cooperative PGGM Coöperatie U.A.; and
(e) To participate in or in any other way take an interest in and conduct the management of companies of whatever nature, moreover to finance third parties, provide security in any way or otherwise bind itself for the liabilities of third parties and finally all activities which are incidental to or which may be conducive to any of the foregoing.

Furthermore, in accordance with article 2.2 of the articles of association, the purpose of the company is to provide the management and financing of its subsidiaries, group companies and participating interests and to provide surety and guarantees for its own debts, as well as for the debts of its subsidiaries, group companies and participating interests.

AIFM licence

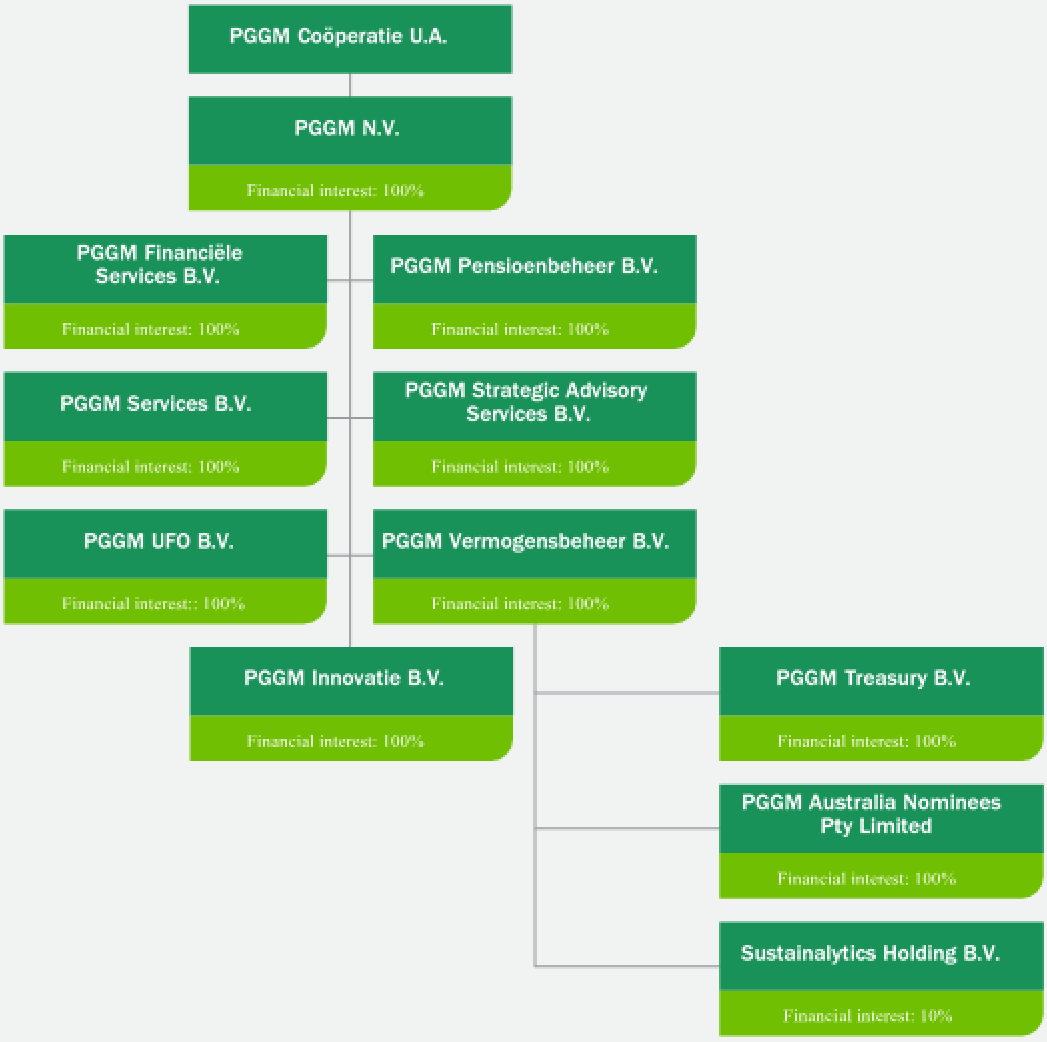
Pursuant to Section 2:67 of the Financial Supervision Act (Wft), the Authority for the Financial Markets (AFM) has granted PGGM Vermogensbeheer an AIFM licence allowing it to act as the manager of an investment fund as defined in Section 1:1 of the Wft, effective from 4 April 2014. The licence is limited to offering the rights of participation to professional investors.

Pursuant to Section 2:67a(2) of the Wft, PGGM Vermogensbeheer is also permitted to carry out the following activities or to provide the following services:

- Manage individual capital;
- Advise on financial instruments in the context of practising a profession or conducting a business;
- Receive and transfer orders from clients relating to financial instruments in the practice of a profession or operation of a business.

Group structure

One hundred percent (100%) of the shares in Vermogensbeheer are held by PGGM N.V. In turn, 100% of the shares in PGGM N.V. are held by PGGM Coöperatie U.A. The following figure shows the legal structure of PGGM Coöperatie U.A., PGGM N.V., its subsidiaries and other participating interests (‘the PGGM group’) as at 31 December 2019.


PGGM Coöperatie U.A.
PGGM N.V.
Financial interest: 100%
PGGM Financiële Services B.V.
Financial interest: 100%
PGGM Pensioenbeheer B.V.
Financial interest: 100%
PGGM Services B.V.
Financial interest: 100%
PGGM Strategic Advisory Services B.V.
Financial interest: 100%
PGGM UFO B.V.
Financial interest:: 100%
PGGM Vermogensbeheer B.V.
Financial interest: 100%
PGGM Innovatie B.V.
Financial interest: 100%
PGGM Treasury B.V.
Financial interest: 100%
PGGM Australia Nominees Pty Limited
Financial interest: 100%
Sustainalytics Holding B.V.
Financial interest: 10%

2 Accounting principles for the valuation of assets and liabilities, determination of the result and the cash flow statement

General

The accounting principles for the valuation of assets and liabilities and determination of the result are based on historical costs or the fair value. If no specific valuation principle is stated, valuation takes place on a historical cost basis. The result is determined as the difference between the net realisable value of the delivered performance and the costs and other expenses incurred over the year. Transaction revenues are recognised in the year in which they are realised.

References are included in the balance sheet, income statement and cash flow statement. These references refer to the explanatory notes.

Recognition of an asset or liability

Assets and liabilities in general are stated at the acquisition price or production cost, or their current value. If no specific valuation principle is stated, valuation is on the basis of the acquisition price.

An asset is recognised in the balance sheet when it is probable that the future economic benefits will accrue to Vermogensbeheer and its value can be reliably established.

A liability is included on the balance sheet if it is probable that its settlement will be associated with an outflow of resources and the amount thereof can be reliably established.

When a transaction causes almost all or all future economic benefits and almost all or all risks related to an asset or liability to be transferred to a third party, then the asset or the liability is no longer recognised on the balance sheet. In addition, assets or liabilities are no longer recognised on the balance sheet from the time that the conditions of probable future economic benefits and reliability of establishing the value are no longer met.

Recognition of income and expenses

Income is recorded in the statement of income and expenses if an increase in economic potential associated with an increase in the value of an asset or a decrease in the value of a liability occurred, provided that the value thereof can be reliably established.

An expense is recorded if a decrease in economic potential associated with a decrease in the value of an asset or an increase in the value of a liability occurred, provided that the value thereof can be reliably established.

The result is determined as the difference between the net realisable value of the delivered performance and the costs and other expenses incurred over the year. Transaction revenues are recognised in the year in which they are realised. References are included in the balance sheet, income statement and cash flow statement. These references refer to the explanatory notes.

Comparison to previous year

The accounting principles used for valuations and to determine the result are unchanged with respect to the previous financial year.

Fair value

The fair value of a financial instrument is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties who are independent of each other.

Foreign currency

The financial statements are presented in euros, Vermogensbeheer’s functional currency. All financial information in euros has been rounded off to the nearest thousand. Assets and liabilities denominated in foreign currencies are converted into euros at the exchange rate prevailing on the balance sheet date. This valuation forms part of the fair value valuation. Income and expenses relating to transactions in foreign currencies during the reporting period are converted at the exchange rate prevailing on the transaction date. All foreign currency translation differences are recognised in the statement of income and expenses.

The assets, liabilities, and income and expenses of consolidated participating interests with a functional currency other than the presentation currency are converted at the exchange rate prevailing on the balance sheet date.

The resulting translation gains and losses are directly recognised under equity in the statutory foreign currency translation reserve.

Use of estimates

The preparation of the annual financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of the accounting principles and the reported value of assets and liabilities and of income and expenses. The actual results may differ from these estimates. The estimates and underlying assumptions are continuously assessed. Revisions of estimates are applied in the period during which the estimate is revised and in the future periods for which the revision has consequences.

Basis of consolidation

The consolidated financial statements comprise the financial data of Vermogensbeheer, its group companies and other legal entities in which it can exercise dominant control or over which it has central management. Group companies are participating interests in which Vermogensbeheer has a controlling interest, or in which policy-making influence can be exercised in some other way. The assessment of whether policy-making influence can be exercised involves financial instruments which potentially carry voting rights and can be exercised directly. Participating interests acquired for the sole purpose of disposal within the foreseeable future are not consolidated.

Newly acquired participating interests are consolidated from the date on which policy making influence can be exercised. Divested participating interests are consolidated until the date this influence ceases.

In the consolidated annual financial statements, mutual liabilities, receivables and transactions are eliminated, as are any profits made within the group. The group companies are fully consolidated.
The following companies are included in the consolidation:

Name	**Place of business**	**Share in capital in issue**
PGGM Treasury B.V.	Zeist, The Netherlands	100%
PGGM Australia Nominees Pty Limited	Sydney, Australia	100%

Acquisition and disposal of group companies

From the date of acquisition, the results and the identifiable assets and liabilities of the acquired companies are included in the consolidated financial statements. The date of acquisition is the moment that dominant control can be exercised over the relevant company.

The acquisition price is the sum of money, or the equivalent, agreed to acquire the company, increased by any directly attributable costs. If the acquisition price is higher than the net amount of the fair value of the identifiable assets and liabilities, the excess is capitalised as goodwill under intangible fixed assets. If the acquisition price is lower than the net amount of the fair value of the identifiable assets and liabilities, the difference (negative goodwill) is shown as an accrued liability item.

The companies involved in the consolidation are included in the consolidation until they are sold; they are deconsolidated at the moment when control is transferred.

Intangible fixed assets

Software
Software is stated at the acquisition price or at the production cost net of cumulative depreciation. These assets are subject to straight-line depreciation over their estimated economic life, taking account of any contract term. The residual value is zero.

Property, plant and equipment

Other operating assets
The other operating assets comprise computer hardware. Computer hardware is stated at the acquisition price net of cumulative depreciation. These assets are subject to straight-line depreciation over their estimated five-year economic life. The residual value is zero.

Financial fixed assets

Participating interests in which significant influence is exercised
Participating interests in which significant influence can be exercised on the business and financial policy are stated in accordance with the equity accounting method on the basis of the net asset value.

Vermogensbeheer's accounting principles are used to determine the net asset value. Results on transactions involving a transfer of assets and liabilities between Vermogensbeheer and its participating interests and between participating interests themselves are eliminated to the extent these can be deemed to be unrealised.

Participating interests with a negative net asset value are stated at nil. A provision is created when Vermogensbeheer wholly or partially guarantees the relevant participating interest's debts, or has the constructive obligation (for its share) of enabling the participating interest to pay its debts. This provision is primarily formed against the receivables from the participating interest and for the remainder, under the provisions according to the size of the share in the losses sustained by the participating interest, or for the expected payments by Vermogensbeheer in respect of this participating interest.

The initial valuation of acquired participating interests is based on the fair value of the identifiable assets and liabilities at the moment of acquisition. For the subsequent valuation, the principles applicable to these financial statements are used, with the initial valuation used as a basis.

Participating interests in which there is no significant influence
Participating interests in which no significant influence is exercised are stated at the lower of the acquisition price or realisable value. If there is a firm disposal intention, the participating interest is shown at the lower expected sales value, if applicable.

Impairments of fixed assets
For fixed assets, an assessment is conducted on every balance sheet date to determine whether there are any indications that these assets may be subject to impairment. If this appears to be the case, the realisable value of the asset is estimated. The realisable value is the higher of the value in use or the net selling price. If it is not possible to estimate the realisable value of an individual asset, the realisable value of the cash-generating unit to which the asset belongs (the asset's cash-generating unit) is determined.

An assessment is also conducted on every balance sheet date to determine whether there are any indications that impairment losses shown in earlier years have been reduced. If this appears to be the case, the realisable value of the asset is estimated.

Reversal of an impairment recognised previously takes place only in the event of a change in the estimates used to determine the realisable value since the latest impairment loss shown. In that case, the carrying amount of the asset is raised to the estimated realisable value, but no higher than the carrying amount that would have been determined (after depreciation) if no impairment loss had been recognised for the asset in earlier years.

Receivables, prepayments and accrued income
On initial recognition, receivables are stated at the fair value of the consideration received in return. Accounts receivable are stated at the amortised cost price after initial recognition. If the receipt of the receivable is deferred on grounds of an agreed extension to a payment term, the fair value is determined with reference to the present value of the expected receipts and interest income based on the effective interest rate is taken to the income statement. Provisions for bad debt are deducted from the book value of the receivable.

Third party minority interest
The third party minority interest is shown in the share of third parties in the net asset value determined in accordance with the valuation principles of Vermogensbeheer.

Cash and cash equivalents
Cash and cash equivalents are stated at face value.

Other liabilities, accruals and deferred income
Other liabilities, accruals and deferred income are stated at fair value on initial recognition. After initial recognition, the liabilities are recognised at amortised cost (equal to the face value if there are no transaction costs).

Revenue
These are fees received from third parties for the asset management services.

Costs of outsourced work and other external expenses
The costs of outsourced work and other external expenses consist of all the other external costs that are directly related to the primary administrative work performed by third parties.

Interest income and expenses

Vermogensbeheer recognises interest income and expenses relating to its own cash and cash equivalents. No interest is settled for the current account relationship between PGGM Coöperatie U.A., PGGM N.V. and its subsidiaries.

Taxes

Corporation tax

Within the PGGM Group, corporation tax on the taxable result is calculated for each legal entity. Ultimately, PGGM Coöperatie U.A. settles with the Tax and Customs Administration. Any deferred taxation relating to forward loss compensation is accounted for in the fiscal entity at PGGM Coöperatie U.A. and is settled via the current account with the legal entity to which it relates.

VAT

In addition, together with its subsidiaries, Vermogensbeheer forms part of a tax entity for VAT purposes, as a result of which it is jointly and severally liable for any VAT liabilities of all entities belonging to the tax entity. The tax entity for value added tax purposes is entitled to advance deduction of VAT. The effectuated right to advance deduction is recognised within Vermogensbeheer.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. Cash flows in foreign currencies are restated in euros on the basis of the average exchange rates for the relevant periods. Income and expenses arising from interest, dividends received and tax on profits are included in the cash flow from operating activities. Dividends paid out are recognised in the cash flow from financing activities.

3 Intangible fixed assets

	31 December 2019	31 December 2018
Opening balance		
Acquisition price or manufacturing cost	12,991	12,462
Accumulated amortisation and impairments	-11,584	-10,949
Carrying amount opening balance	**1,407**	**1,513**
Changes		
Investments	515	529
Amortisation	-633	-635
Balance	**-118**	**-106**
Balance at end of period		
Acquisition price or manufacturing cost	13,506	12,991
Accumulated amortisation and impairments	-12,217	-11,584
Carrying amount at end of period	**1,289**	**1,407**
Amortisation period	**5 years**	**5 years**

The investments concern licences of the back office system for the investment administration.

4 Property, plant and equipment

	31 December 2019	31 December 2018
Opening balance		
Acquisition price or manufacturing cost	53	52
Accumulated amortisation and impairments	-43	-39
Book value	**10**	**13**
Changes		
Investments	5	1
Amortisation	-4	-4
Balance	**1**	**-3**
Position as at 31 December		
Acquisition price or manufacturing cost	58	53
Accumulated amortisation and impairments	-47	-43
Carrying amount as at 31 December	**11**	**10**
Depreciation period	**5 years**	**5 years**

5 Financial fixed assets

	Sustainalytics Holding B.V.	Nederlandse Investeringsinstelling N.V.	Total
Balance as at 1 January 2018	**1,599**	**-**	**1,599**
Changes in 2018			
Value changes	-	-	-
Balance as at 31 December 2018	**1,599**		**1,599**
Changes in 2019			
Value changes	-	-	-
Balance as at 31 December 2019	**1,599**	**-**	**1,599**

At the end of the financial year, the participating interest in Sustainalytics was 10% (2018: 11%) with no significant influence. Vermogensbeheer's capital interests in Sustainalytics fell as a result of a capital expansion of Sustainalytics that took place on 4 January 2019.

Vermogensbeheer no longer holds an interest in the Nederlandse Investeringsinstelling N.V. (NLII). The NLII was dissolved on 1 October 2018. Vermogensbeheer received a payment in December 2019 based on the distribution plan.

6 Receivables

	31 December 2019	*31 December 2018*
Accounts receivable	10,056	9,251
Receivables from group companies	1,573	2,670
Receivables from PGGM investment funds	4,990	9,737
Total	**16,619**	**21,658**

The receivables are of a short-term nature.

Accounts receivable
At year-end 2019, the receivables for open fund and asset management fees amounted to €10.1 million (year-end 2018: €9.2 million).

Receivables from group companies
The receivables from group companies concern:

	31 December 2019	*31 December 2018*
PGGM Pensioenbeheer B.V.	868	1,181
PGGM Coöperatie U.A.	705	237
PGGM Strategic Advisory Services B.V.	-	1,252
Total	**1,573**	**2,670**

No interest is charged on the balance of the current account relationships with group companies.

The receivable from PGGM Pensioenbeheer B.V. as at 31 December 2019 concerns a settlement of the costs falling within activities of PGGM Pensioenbeheer B.V. and the fee charged on for the advisory services of PGGM Pensioenbeheer B.V.

The receivable from PGGM Coöperatie U.A. as at 31 December 2019 comprises the share of the corporation tax still to be settled.

Receivables from PGGM investment funds
An amount of €4.5 million (2018: €9.0 million) relates to the Deferred Performance Interest (DPI) scheme and consists of a receivable from the relevant Private Equity funds. Of this, an amount of €2.8 million (2018: €4.5 million) has a term of more than one year. Further insight into the DPI contracts will result in adjustments to the comparative figures for 2018. This has no impact on the equity or result in 2018 or 2019.

7 Prepayments and accrued income

The prepayments and accrued income comprise the following items:

	31 December 2019	***31 December 2018***
Pre-paid amounts	2,609	2,937
Other prepayments and accrued income	4,452	2,005
Total	**7,061**	**4,942**

The other prepayments and accrued income relate to management fees still to be invoiced and have a remaining term of less than one year.

8 Cash and cash equivalents

Cash relates to credit balances which are held in Dutch credit institutions. All amounts are collectable on demand.

The company's own cash and cash equivalents form part of the balance and interest set-off system within PGGM. As a result of participation in the interest set-off system, the company is jointly and severally liable for all obligations arising from this. In 2019, PGGM N.V. decided to invest some of the cash in money market funds.

Vermogensbeheer is the asset manager for external clients and for the PGGM investment funds. To carry out the joint management and to create netting advantages or, as the case may be, interest set-off, Treasury receives orders from PGGM Vermogensbeheer to hold bank accounts and money market instruments and undertake derivative transactions for the account and risk of PGGM Vermogensbeheer's clients, who have provided the requisite mandates. As a consequence of this, the economic ownership of the bank accounts and money market instruments referred to belongs to those instructing PGGM Vermogensbeheer and the legal ownership belongs to Treasury. Consequently, the balance of these bank accounts is not accounted for in the financial statements of Treasury.

Holding a joint bank account and other money market instruments for the benefit of those instructing it does not lead to any credit or bankruptcy risks for Treasury.

9 Equity

The equity is further explained in the notes to the balance sheet of the company financial statements.

10 Current liabilities

	31 December 2019	31 December 2018
Creditors	570	880
Amounts owed to group companies	12,993	22,199
Pre-invoiced amounts	4,468	50
Accruals and deferred income	2,799	2,011
Total	**20,830**	**25,140**

All current liabilities have a remaining term of less than one year.

Creditors
The amount shown in 'Creditors' consists of outstanding invoices from regular creditors.

Amounts owed to group companies
The amounts owed to group companies concern:

	31 December 2019	31 December 2018
PGGM N.V.	11,077	22,123
PGGM UFO B.V.	16	76
PGGM Strategic Advisory Services B.V.	1,900	-
Total	**12,993**	**22,199**

The amount owing to PGGM N.V. as at 31 December 2019 concerns costs charged on for supporting services, accommodation, telephony and ICT costs and the credit invoices paid on behalf of Vermogensbeheer by PGGM N.V. This also includes the allocations to the provisions of PGGM N.V. PGGM N.V. will discontinue its activities as an administrator in relation to the service provision to Volo pension. PGGM N.V. and Volo pension agreed the settlement and liquidation of Volo pension in 2018. Until the time when the relationship between PGGM N.V. and Volo pension is formally ended, PGGM N.V. guarantees the quality of the service provision to Volo pension and its clients. PGGM N.V. recognises the outcomes of the settlement agreement in the financial statements in accordance with the reporting guidelines by including a provision for this. An amount of €4.5 million (2018: €9.0 million) relates to the Deferred Performance Interest (DPI) scheme and consists of a receivable from the relevant Private Equity funds. Of this, an amount of €2.8 million (2018: €4.5 million) has a term of more than one year. Further insight into the DPI contracts will result in adjustments to the comparative figures for 2018. This has no impact on the equity or result in 2018 or 2019. Further insight into the contractual obligations for the variable remuneration will result in adjustments to the comparative figures for 2018. This has no impact on the result.

The amount owning to PGGM UFO B.V. as at 31 December 2019 concerns the settlement of debtors.

The amount owing to PGGM Strategic Advisory Services B.V. as at 31 December 2019 concerns a settlement of the costs falling within activities of PGGM Strategic Advisory Services B.V.

Pre-invoiced amounts
The pre-invoiced amounts relate primarily to the invoicing of security lending.

Accruals and deferred income
The accruals and deferred income are mainly invoices still to be received.

11 Off-balance sheet assets and liabilities

Liability of a tax entity
Together with its shareholder, PGGM N.V. and its sole shareholder PGGM Coöperatie U.A. and the other subsidiaries of PGGM N.V., Vermogensbeheer forms a tax entity for corporation tax purposes and, for that reason, is jointly and severally liable for all the ensuing liabilities.

Vermogensbeheer also forms part of a tax entity of the PGGM group for VAT purposes, as a result of which it is jointly and severally liable for any VAT liabilities of all entities belonging to the tax entity.

Balance and interest set-off system
Together with its subsidiaries and its sole shareholder PGGM Coöperatie U.A., PGGM N.V. makes use of the balance and interest set-off system at one of the Dutch credit institutions.

Hardware and software liability
The total liability amounted to €13.4 million as at 31 December 2019 (2018: €2.1 million). The liability runs until 2024. An amount of €2.7 million is payable within one year. Further insight into the contracts will result in adjustments to the comparative figures for 2018.

12 Net management fees

	2019	**2018**
Net management fee, institutional	31,781	47,043
Net management fee, PGGM Funds	105,969	79,584
Total	**137,750**	**126,627**

Vermogensbeheer performs asset management activities for institutional clients and the PGGM funds. A gross management fee is charged for this at the fund and mandate level, with settlement of the total fee from clients taking place after the event, resulting in the net management fees shown above.

13 Costs of outsourced work and other external expenses

	2019	**2018**
External personnel	11,893	11,271
Consultancy fees	399	545
Total	**12,293**	**11,816**

The costs of outsourced work consist of direct and charged-on expenses. The costs of outsourced work and other external costs charged on in the 2019 financial year amount to €5.0 million (2018: €4.7 million).

External personnel are personnel hired externally directly by Vermogensbeheer. The advisory costs relate to investment advice, fiscal/legal advice and other services.

14 Personnel expenses

Vermogensbeheer has no permanent employees. The employee expenses for the employees working for Vermogensbeheer are charged directly to Vermogensbeheer by PGGM N.V. and amounted to €63.5 million in 2019 (2018: €56 million).

The pension costs form part of the attributed employee expenses. For an explanation of the pension costs and the pension scheme, reference is therefore made to the financial statements of PGGM N.V.

In addition, a sum of €11.6 million (2018: €11.1 million) of the employee expenses relates to costs of the supporting services charged on by PGGM N.V. and a sum of €4.5 million (2018: €4.1 million) is charged on to PGGM Strategic Advisory Services B.V.

Remuneration of Directors and Supervisory Board
Vermogensbeheer has no Directors that receive remuneration on the grounds of a directorship pursuant to the Articles of Association. The remuneration for Roderick Munsters of the supervisory board amounts to €25,503 (2018: €25,125 No loans, advances or guarantees were provided to the Directors.

15 Amortisation of intangible fixed assets, depreciation of property, plant and equipment and impairments

	2019	*2018*
Intangible fixed assets	633	635
Property, plant and equipment	4	4
Total	**637**	**639**

16 Allocated amortisation of intangible fixed assets, depreciation of property, plant and equipment and impairments

	2019	*2018*
Intangible fixed assets	117	95
Property, plant and equipment	1,904	1,900
Total	**2,021**	**1,995**

17 Other operating expenses

	2019	*2018*
IT costs	20,574	17,664
Accommodation expenses	1,945	1,625
Marketing expenses	91	189
Other expenses	1,921	5,098
Total	**24,531**	**24,576**

The other operating expenses consist of direct and charged-on operating expenses. The operating expenses charged on during the 2019 financial year amount to €7.2 million (2018: €6.6 million).

The increase in the other operating expenses is due primarily to direct Vermogensbeheer IT costs for hardware, software, data vendors and IT costs charged on from PGGM N.V.

18 Taxes

The taxes shown in the income statement consist of the following:

	2019	***2018***
Tax expense	6,861	6,136
Total	**6,861**	**6,136**

	2019	***2018***
Nominal tax liability	25.00%	25.00%
Effective tax liability	25.00%	25.00%

Corporation tax is calculated on the taxable result. Ultimately, PGGM Coöperatie U.A. settles with the Tax and Customs Administration. Any corporation tax liabilities and/or active deferred taxation due to forward loss compensation are accounted for in the fiscal entity at PGGM Coöperatie U.A. and are settled via the current account with the entity to which they relate.

19 Transactions with related parties

Transactions with related parties are said to exist when there is a relationship between the company, its participating interests and their board members and management.

There were no transactions with related parties which were not conducted at arm's length.

20 Auditors' fees

Pursuant to Book 2, Section 382a(3) of the Dutch Civil Code, reference is made to the financial statements of PGGM Coöperatie U.A. for an explanation of the auditors' fees.

21 Post-balance sheet events

Coronavirus pandemic

At the time of writing of this annual report in March 2020, PGGM faced one of the biggest challenges in its existence: the outbreak of the coronavirus pandemic. Although we are well-prepared for the various scenarios relating to potential disruptions of the normal course of business, it became clear to us at an early stage, well before the World Health Organization (WHO) announced the pandemic, that we would need to take radical measures.

The pandemic will certainly have major consequences for the economy as well as for the public and for social life. In particular, a difficult period has begun for the health care and welfare sector, with which we feel such a close connection. The utmost will be demanded of countless healthcare professionals for whom we administer pensions.

There was already an immediate major impact on the assets of our clients and the coverage of the pension funds was put under pressure. We are doing everything possible to support them with this and to assure the continuity of PGGM and our service provision. We also complied with the government's call to facilitate work from home wherever possible and the necessary IT and other support was quickly arranged. Only a few employees remain at the office for critical processes that can only be performed there. Within a very short space of time, working from home reached a level not previously seen at PGGM and the organisation is preparing to continue to serve the interests of clients and their millions of participants in a time of unprecedented dynamism and uncertainty. Without knowing how long this crisis will last or how deep its effect will be, our organisation is showing determination to address it.

For the time being, we are not seeing concrete major financial consequences of the coronavirus crisis for the business operations of Vermogensbeheer. It is conceivable that arrears will arise in the work flow if the coronavirus measures last for a longer period. These will then have to be caught up at a later time, at higher costs. The increase in working from home has also given rise to an increased risk of operational errors. These could possibly also have significant negative financial consequences. In order to minimise the risk of operational errors, the PGGM office remains open with limited staffing. There is also increased attention to continued application of the necessary operational control mechanisms.

It can also be reported that the work for our clients (pension funds) continues in full and contacts have been intensified. Customer demand, and consequently the jobs, are therefore assured. Our clients are also sufficiently solvent, so that no payment risk arises. In addition, we are maintaining close contacts with our suppliers to ensure the continuity of their services to us for after the end of the coronavirus measures.

22 Risk management

The Risk & Compliance department is responsible for coordinating the risk management process and draws up a monthly risk report for each business unit. This risk report presents the risk picture for each cluster of risks, compared with the risk appetite determined by the Vermogensbeheer Directors. The substance of the risk report is discussed and adopted by the Unit Risk Committee of Vermogensbeheer. The risks and the accompanying risk appetite are divided into three risk clusters: Corporate, Service Provision and Reputation.

Main risks and uncertainties

The main risks and uncertainties, developments in 2019 and management of these risks in each cluster are briefly discussed below. An explanation is also provided for a few relevant financial risks, specifically: market risk and credit risk.

Corporate

The social discussion on changes to the pension system resulted in a new Pension Agreement in 2019. Many choices still need to be filled in, so the definitive outcomes remain uncertain. Initiatives are currently under way to prepare the organisation for various future scenarios, improve flexibility and controllability and encourage working under architecture. In relation to the reform of the pension system, we are preparing for various pension scenarios so that we are ready for future changes to the pension system. This helps limit the environmental risks for Vermogensbeheer.

Apart from the system reform, there are other environmental risks for Vermogensbeheer. These include uncertainties relating to the timely establishment of a trade agreement between the EU and UK in relation to Brexit, the ever-growing Cyber threat and the tightening of requirements imposed on PGGM by different supervisory authorities. These developments make heavy demands on the existing capacity for change and are also characterised by a great deal of uncertainty. At the moment we recognise an increased risk in relation to compliance. In order to comply and to continue to comply with statutory requirements, close attention was devoted in 2019 to MiFID II (Markets in Financial Instruments Directive). From the perspective of heightened supervision, PGGM wants to be better able to demonstrably implement legislation and regulations. A programme was started to adapt our business operations and the underlying design principles accordingly. These developments make heavy demands on the existing capacity for change.

The ability to recruit, develop and retain talent is of strategic importance for PGGM. The shortage on the labour market increased further in 2019. This prompts increased attention for HR risks. These risks are mitigated by using and continuing to search for alternative recruitment methods. We have our own trainee and Quant trainee programme, for which we were able to again recruit talents in 2019. In order to enable employees to work healthily and with enjoyment for long periods, they are stimulated and supported to take control of their own career development via the Fit for the Future programme. On the basis of Steering for Staffing, the growth potential of each employee is also discussed, determined and monitored.

Vermogensbeheer has a sound financial position. Total costs developed in line with the budget and the forecast. The investment portfolios that our clients have entrusted to us for management are managed at the risk and expense of our clients. This means that the financial risks that arise from these investment portfolios have no direct impact on the financial position of our organisation.

Service provision

Operating risks are run in the execution of orders for our clients. In order to mitigate these risks, we have designed our processes in a way that means we are verifiably ‘in control'. PGGM issues Standard 3402 and 3000 multi-client reports on this, with regard to the asset management service provision. The Standard reports of Vermogensbeheer on 2019 contain no limitations. No incidents with a materially attributable impact occurred in 2019. The investment portfolios for which our clients have entrusted the management to PGGM were managed in a controlled manner during the past year, without any notable incidents.
In order to comply with client requirements and the still-growing laws and regulations, several projects are running simultaneously. In view of the scope and the impact of these projects on the organisation, the change capacity is under pressure. The IT set-up for asset management is also not yet optimally configured for the best-in-class ambition, which means there is an increased IT risk. In order to mitigate this risk, frameworks were drawn up for adequate, balanced, effective and transparent project and portfolio management.
With regard to security of information and (cyber) security, we live in an age in which threats continue to grow and the verifiability of measures becomes increasingly important for us and for our stakeholders. In 2019 the policy and the set-up for information security were further strengthened. On the basis of the PGGM Security Control Framework, we actively monitor the maturity and demonstrability of our security processes.

Reputation risk
In order to manage the reputation risk, PGGM pursues activities including active stakeholder management in which the client relationship is continually monitored and client satisfaction is continually measured. PGGM also actively monitors the media exposure of our organisation and our clients and we specifically discuss the reputation risks and opportunities, as well as the measures to mitigate risks and utilise opportunities, on a regular basis.

Market risk
Vermogensbeheer’s revenues are dependent on the agreements with the clients. The risk of diminishing returns as a result of falling assets is limited by the fact that the revenues largely consist of fixed fees.

Credit risk
The credit risk is defined as the risk that counter-parties will be unable to fulfil their contractual obligations. This primarily concerns the receivable management fees contractually agreed with the clients. As Vermogensbeheer performs asset management activities for pension funds, the risk as a consequence of insolvency is low.
The maximum credit risk amounts to the book value of the financial fixed assets, receivables and the cash and cash equivalents. The book value of financial assets shown in the balance sheet is an approximation of their fair value.

Capital requirement
It is essential for the continuity of our organisation that we maintain enough capital to accommodate the potential financial consequences of the identified risks. We have adopted a specific Equity policy for this purpose. The requirements stipulated by DNB have been incorporated in this. The Finance & Control department monitored the adequacy of the capital maintained in 2019.
For PGGM Vermogensbeheer B.V. and PGGM Treasury B.V., the adequacy of the capital maintained is specifically determined using the Internal Capital Adequacy Assessment Process (ICAAP). The 2019 annual talks on the ICAAP with DNB did not give rise to any noteworthy observations.

Company financial statements of PGGM Vermogensbeheer B.V.

Company balance sheet as at 31 December 2019

(before profit appropriation)
(amounts in thousands of euros)

	Ref.	31 December 2019	31 December 2018
Assets			
Fixed assets			
Intangible fixed assets		1,289	1,407
Property, plant and equipment		12	11
Financial fixed assets	*24*	4,667	4,667
Total fixed assets		**5,968**	**6,085**
Current assets			
Receivables	*25*	16,615	21,655
Prepayments and accrued income		7,061	4,942
Cash and cash equivalents		68,754	69,417
Total current assets		**92,430**	**96,014**
Total assets		**98,398**	**102,099**
Liabilities			
Equity	*26*		
Paid and called-up capital		100	100
Statutory reserve		5	5
Share Premium Reserve		34,400	34,400
Other reserves		22,477	24,071
Undistributed profit		20,598	18,406
Total equity		**77,580**	**76,982**
Current liabilities	*27*		
Accounts payable		570	880
Amounts owed to group companies		13,009	22,199
Amounts invoiced in advance		4,468	50
Accruals and deferred income		2,771	1,988
Total current liabilities		**20,818**	**25,117**
Total liabilities		**98,398**	**102,099**

Company income statement for 2019

(amounts in thousands of euros)

	2019	***2018***
Company result after taxes	20,598	18,406
Result after taxes	**20,598**	**18,406**

Notes to the company financial statements

23 General

The company financial statements form part of Vermogensbeheer's 2019 financial statements. In respect of the company income statement of Vermogensbeheer, use is made of the exemption by virtue of Book 2, Article 402 of the Dutch Civil Code. Please refer to the notes to the consolidated balance sheet and consolidated income statement for items in the separate balance sheet and the separate income statement not specifically addressed below.

24 Financial fixed assets

	Participating interests
Balance as at 1 January 2018	**3,667**
Changes in 2018	-
Allocation to share premium reserve of PGGM Treasury B.V.	1,000
Balance as at 31 December 2018	**4,667**
Changes in 2019	
Value changes	-
Balance as at 31 December 2019	**4,667**

At the end of the financial year, the participating interests concern the capital interest of 10% (2018: 11%) in Sustainalytics. Vermogensbeheer's capital interests in Sustainalytics fell as a result of a capital expansion of Sustainalytics that took place on 4 January 2019.

Vermogensbeheer no longer holds an interest in NLII.

The participating interests concern the following companies:

Name Place of business	*Share in subscribed Capital*
Sustainalytics Holding B.V. Amsterdam	10%

25 Receivables

	31 December 2019	*31 December 2018*
Accounts receivable	10,055	10,250
Receivables from group companies	1,571	2,668
Receivables from PGGM investment funds	4,989	9,737
Total	**16,615**	**21,655**

The receivables are of a short-term nature.

Receivables from PGGM investment funds
An amount of €4.5 million (2018: €9.0 million) relates to the Deferred Performance Interest (DPI) scheme and consists of a receivable from the relevant Private Equity funds. Of this, an amount of €2.8 million (2018: €4.5 million) has a term of more than one year. Further insight into the DPI contracts will result in adjustments to the comparative figures for 2018. This has no impact on the equity or result in 2018 or 2019.

26 Equity

	Paid and called-up capital	Statutory Reserve	Share premium reserves	Other reserves	Undistributed profit	Total
Balance as at 1 January 2018	**100**	**5**	**34,400**	**20,006**	**19,065**	**73,576**
Appropriation of profit for 2017	-	-	-	19,065	-19,065	-
Dividend paid out	-	-	-	-15,000	-	-15,000
Result 2018	-	-	-	-	18,406	18,406
Balance as at 31 December 2018	**100**	**5**	**34,400**	**24,071**	**18,406**	**76,982**
Appropriation of profit for 2018	-	-	-	18,406	-18,406	-
Dividend paid out	-	-	-	-20,000	-	-20,000
Result 2019	-	-	-	-	20,598	20,598
Balance as at 31 December 2019	**100**	**5**	**34,400**	**22,477**	**20,598**	**77,580**

Vermogensbeheer's capital amounts to €500,000 (2018: €500,000), consisting of 500 shares, each with a nominal value of €1,000. Of these, 100 shares have been issued and are paid up.

Vermogensbeheer determined the capital requirement concerning the prudential capital at year-end 2019 at €49.7 million (2018: €47.6 million). Consequently, the regulatory capital as at 31 December 2019 complies with the DNB's prudential capital requirements. The total result after tax in 2019 amounts to €20.6 million (2018: €18.4 million) and is equal to the changes in equity.

Undistributed profit
The result after tax for 2019 is part of the undistributed profit of the equity item.

Proposal for profit appropriation
It is proposed to the General Meeting of Shareholders that the result after tax for 2018 be credited to the other reserves.

27 Current liabilities

The current liabilities all have a remaining term of less than one year.

Amounts owed to group companies
The amounts owed to group companies concern:

	31 December 2019	*31 December 2018*
PGGM N.V.	11,062	22,109
PGGM UFO B.V.	16	76
PGGM Strategic Advisory Services B.V.	1,900	-
PGGM Treasury B.V.	31	14
Total	**13,009**	**22,199**

The amounts owed to group companies are further explained in the notes to the balance sheet in the consolidated financial statements.

Accruals and deferred income
The accruals and deferred income are further explained in the notes to the balance sheet in the consolidated financial statements.

28 Transactions with related parties

Transactions with related parties are said to exist when there is a relationship between the company, its participating interests, their Board members and management.
There were no transactions with related parties which were not conducted at arm's length.

29 Post-balance sheet events

Coronavirus pandemic

At the time of writing of this annual report in March 2020, PGGM faced one of the biggest challenges in its existence: the outbreak of the coronavirus pandemic. Although we are well-prepared for the various scenarios relating to potential disruptions of the normal course of business, it became clear to us at an early stage, well before the WHO announced the pandemic, that we would need to take radical measures.

The pandemic will certainly have major consequences for the economy as well as for the public and for social life. In particular, a difficult period has begun for the health care and welfare sector, with which we feel such a close connection. The utmost will be demanded of countless healthcare professionals for whom we administer pensions.

There was already an immediate major impact on the assets of our clients and the coverage of the pension funds was put under pressure. We are doing everything possible to support them with this and to assure the continuity of PGGM and our service provision. We also complied with the government's call to facilitate work from home wherever possible and the necessary IT and other support was quickly arranged. Only a few employees remain at the office for critical processes that can only be performed there. Within a very short space of time, working from home reached a level not previously seen at PGGM and the organisation is preparing to continue to serve the interests of clients and their millions of participants in a time of unprecedented dynamism and uncertainty. Without knowing how long this crisis will last or how deep its effect will be, our organisation is showing determination to address it.

For the time being, we are not seeing concrete major financial consequences of the coronavirus crisis for the business operations of Vermogensbeheer. It is conceivable that arrears will arise in the work flow if the coronavirus measures last for a longer period. These will then have to be caught up at a later time, at higher costs. The increase in working from home has also given rise to an increased risk of operational errors. These could possibly also have significant negative financial consequences. In order to minimise the risk of operational errors, the PGGM office remains open with limited staffing. There is also increased attention to continued application of the necessary operational control mechanisms.

It can also be reported that the work for our clients (pension funds) continues in full and contacts have been intensified. Customer demand, and consequently the jobs, are therefore assured. Our clients are also sufficiently solvent, so that no payment risk arises. In addition, we are maintaining close contacts with our suppliers to ensure the continuity of their services to us for after the end of the coronavirus measures.

Zeist, 7 April 2020
The Management Board,

Sylvia Butzke

Eloy Lindeijer

Arjen Pasma

Bob Rädecker

Frank Roeters van Lennep

Other information

Independent auditor’s report

Report on the accompanying financial statements

To: the General Meeting of PGGM Vermogensbeheer B.V.

Our opinion

We have audited the financial statements 2019 of PGGM Vermogensbeheer B.V. (hereafter 'the company'), based in Zeist (hereafter 'the financial statements').

In our opinion the accompanying financial statements give a true and fair view of the financial position of PGGM Vermogensbeheer B.V. as at 31 December 2019 and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. the consolidated and company balance sheet as at 31 December 2019;
2. the consolidated and company profit and loss account for 2019; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of PGGM Vermogensbeheer B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- a message from the CIM;
- the management board's report;
- the report of the supervisory board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- the appendices.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Management Board is responsible for the preparation of the other information, including the management board's report, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Management Board and the Supervisory Board for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board;
- concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the group entities. Decisive were the size and/or the risk profile of the group entities.

On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Utrecht, 7 April 2020

KPMG Accountants N.V.

G.J. Hoeve RA

Assurance report of the independent auditor for the responsible investment information

To the readers of the Annual Report 2019 of PGGM Vermogensbeheer B.V.

Our conclusion
We have reviewed the responsible investment information included in the Annual Report 2019 of PGGM Vermogensbeheer B.V. (hereafter: 'PGGM') based in Zeist. A review is aimed at obtaining a limited level of assurance.
The responsible investment information refers to the information included in chapter 2 (p.25 to 64) and chapter 3 (hereafter: 'the RI information')
Based on our procedures, nothing has come to our attention that causes us to believe that the RI information is not prepared, in all material respects, in accordance with the reporting criteria as included in the section 'reporting criteria' of this assurance report.

Basis for our conclusion
We have performed our review of the RI information in accordance with Dutch law, including Dutch Standard 3000A 'Assurance-opdrachten anders dan opdrachten tot controle of beoordeling van historische financiële informatie (attest-opdrachten)' (Assurance engagements other than audits or reviews of historical financial information (attestation engagements)).
Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the RI information' of this assurance report.
We are independent of PGGM in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Reporting criteria
The RI information needs to be read and understood together with the reporting criteria. PGGM is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.
The reporting criteria used for the preparation of RI information are based on the principles of the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) supplemented with internally developed reporting criteria.

Limitations to the scope of our review
The RI information includes prospective information such as ambitions, strategy, plans, expectations and estimates, and risk assessments. Inherently the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the RI information.
The references to external sources or websites are not part of the information itself as reviewed by us. We therefore do not provide assurance on this information.

Responsibilities of the Management Board and the Supervisory Board for RI information
The Management Board of PGGM is responsible for the preparation of the RI information in accordance with the reporting criteria as referred to in the section 'reporting criteria' of this assurance report. The choices made by the Management Board regarding the scope of the RI information and the reporting policy are summarized in the section 'What we mean by responsible investment' of the PGGM Annual Report.

The Management Board is also responsible for such internal control as it determines is necessary to enable the preparation of the RI information that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing PGGM's reporting process.

Our responsibilities for the review of the RI information
Our objective is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determining the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements with a limited level of assurance is therefore substantially less than the assurance obtained in audit engagements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the information in the Report. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.
We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS, Regulations on quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.
We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3000A, ethical requirements and independence requirements.

Our review engagement included, among others, the following procedures:

- Performing an analysis of the external environment and obtaining an understanding of relevant themes and issues, and the characteristics of the company;
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the RI information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the Management Board;
- Obtaining an understanding of the reporting processes for the RI information, including obtaining a general understanding of internal control relevant to our review;
- Identifying areas in the RI information with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or error. Designing and performing further assurance procedures aimed at determining the plausibility of the RI information responsive to this risk analysis. These procedures included among others:
    - Interviewing relevant staff at corporate level responsible for the responsible investment policy and results;
    - Interviewing relevant staff responsible for providing the RI information for, carrying out internal control procedures on, and consolidating the RI information;
    - Obtaining assurance information that the RI information reconciles with underlying records of the company;
    - Reviewing, on a limited test basis, relevant internal and external documentation.
- Evaluating the presentation, structure and content of the RI information;
- To consider whether the RI information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the Management Board regarding, among other matters, the planned scope and timing of the review and significant findings that we identify during our review.

Utrecht, 7 April 2020
KPMG Accountants N.V.

G.J. Hoeve RA

Provisions of the Articles of Association governing appropriation of the result

Profit appropriation takes place in accordance with Article 30 of the Articles of Association:

30.1 The General Meeting is authorised to appropriate the profit determined by the adoption of the Financial Statement and to determine the distribution of profits or the reserves, in as far as the equity exceeds the statutory reserves.

30.2 Distribution decisions are subject to the approval of the Directors. The Directors will refuse approval only if they know or could reasonably be expected to foresee that the company would not be able to continue payment of its due debts after the distribution.

30.3 When calculating each distribution, the shares which the company holds in its own share capital are not included.

30.4 A deficit may only be charged to the statutory reserves to the extent that this is permitted by law.

General

Address

PGGM Vermogensbeheer B.V.
Noordweg Noord 150
3704 JG Zeist
PO Box 117
3700 AC Zeist
Telephone +31 (0)30 2779911
www.pggm.nl
Commercial Register registration number 30228490

Directors

Sylvia Butzke
Eloy Lindeijer
Arjen Pasma
Bob Rädecker
Frank Roeters van Lennep

Supervisory Board

Edwin Velzel, chair
Paul Boomkamp (until 1 September 2019)
Willem Jan Brinkman (from 29 November 2019)
Roderick Munsters

Auditors

KPMG Accountants N.V.
Financial Services
PO Box 43004
3540 AA Utrecht

Papendorpseweg 83
3528 BJ Utrecht
Telephone +31 30 6582300

Information

If you have any questions regarding the content of this Annual Report, please contact us via:
www.pggm.nl/jaarverslag.

Appendices

Appendix 1 Retirement schedule

Retirement schedule for executive and supervisory positions.

Name	Date of appointment	End of term of appointment
Edwin Velzel	3 May 2018	3 May 2022
Roderick Munsters	15 May 2018	15 May 2022
Willem Jan Brinkman	27 January 2020	27 January 2024
Paul Boomkamp	1 September 2015	1 September 2019

Appendix 2 Ancillary positions held by members of the Supervisory Board

Ancillary positions held by Edwin Velzel (Chairman)
Date of Birth 29 January 1963
Nationality Dutch
Primary position Chief Executive Officer (CEO) PGGM N.V.

Management and supervisory positions:

Executive Board Chairman	**PGGM N.V.**
Member of Supervisory Board	PGGM Vermogensbeheer B.V.
Member of Supervisory Board	Klaverblad Verzekeringen
Member of Supervisory Council	Omring (Care and Nursing)
Member of Supervisory Council	Gelre hospitals (as of 1 September 2019)

Ancillary positions Willem Jan Brinkman (deputy chair, from 27 January 2020)
Date of Birth 10 January 1973
Nationality Dutch
Main position Chief Financial & Risk Officer (CFRO) PGGM N.V. (from 29 November 2019)

Management and supervisory positions:

Member of Executive Board	PGGM N.V. (started on 29 November 2019).
Member of Supervisory Board	PGGM Vermogensbeheer B.V. (started on 27 January 2020)
Member of investment advisory committee	FNV investment advisory committee
Liquidator for the Nederlandse Investeringsinstelling N.V.	The Netherlands Investment Institute

Ancillary positions P.A.M. (Paul) Boomkamp (deputy chair until 1 September 2019)
Date of Birth 17 March 1969
Nationality Dutch
Main position Chief Financial & Risk Officer (CFRO) PGGM N.V. (until 1 September 2019)

Management and supervisory positions:

Member of Executive Board	PGGM N.V. (ended as of 1 September 2019)
Member of Supervisory Board	PGGM Vermogensbeheer B.V. (ended as of 1 September 2019).
Member of Advisory Board	Sociale Verzekeringsbank, also chair of the IT Advisory Committee.
Member of Supervisory Council	Stichting Emergis, centre for mental health care in Goes. Also chair of the Audit Committee (ended as of 1 September 2019).

Ancillary positions R.M.S.M. Munsters
Date of birth 19 July 1963
Nationality Dutch and Canadian
Primary position R2MB Consultancy B.V.

Management and supervisory positions:

Member of Supervisory Board	PGGM Vermogensbeheer B.V.
Member of Supervisory Board	Edmond de Rothschild Asset Management (France) (resigned as Supervisory Board member as of 14 May 2019)
Member of Supervisory Board	Unibail-Rodamco-Westfield SE
Owner and director	R2MB Consultancy B.V.
Member of Supervisory Council	Boijmans van Beuningen Museum
Member of Monitoring Committee	Corporate Governance Code Monitoring Committee
Member of Financial Investments Strategy Committee	Capital Guidance
Member of Supervisory Council	Nationaal Fonds Kunstbezit
Member of Supervisory Board	Moody's Investors Service-EU
Member of the Board	Stichting Administratiekantoor de Raekt

Appendix 3 Implementation of Responsible Investment

The PGGM Beliefs and Principles and the PGGM Responsible Investment Implementation Framework, supplemented by implementation guidelines for individual investment categories, apply to all investment and advisory activities that fall within the following three categories:

(1) We manage various PGGM mutual funds in which multiple clients participate, as well as the activities of PGGM Treasury B.V.
(2) We manage internal mandates for individual clients.
(3) We provide implementation advice to clients that invest in externally managed mandates via PGGM.

We also manage external mandates to which the PGGM Beliefs and Principles and the PGGM Responsible Investment Implementation Framework are not directly or indirectly applied (4).

Appendix 4 Companies engaged in dialogue

Create figure: total overview of companies with which engagement is held, with the data below: also see the Excel report.

Company	Engagement type	Region	Theme 1	Theme 2
3M Co	Company	North America	Climate change, pollution and emissions	
AB Volvo (publ)	Company	Europe (excl Netherlands)	Human rights	
AbbVie	Company	North America	Health care	
Adani Enterprises Limited	Company	Asia	Climate change, pollution and emissions	
Alphabet Inc. Class A	Company	North America	Good corporate governance	
American Express Company	Company	North America	Good corporate governance	
American International Group, Inc.	Company	North America	Good corporate governance	
Amphenol Corporation Class A	Company	North America	Good corporate governance	
Anheuser-Busch InBev SA/NV	Company	Europe (excl Netherlands)	Good corporate governance	
Astellas Pharma Inc.	Company	Asia	Health care	
AstraZeneca Plc	Company	Europe (excl Netherlands)	Health care	

Company	Engagement type	Region	Theme 1	Theme 2
Atlantia S.p.A.	Company	Europe (excl Netherlands)	Human rights	
AviChina Industry & Technology Company Limited	Company	Asia	Human rights	
Barry Callebaut AG	Company	Europe (excl Netherlands)	Human rights	
BASF SE	Company	Europe (excl Netherlands)	Good corporate governance	
Bausch Health Companies Inc	Company	North America	Good corporate governance	Human rights
Bayer AG	Company	Europe (excl Netherlands)	Human rights	
Bharat Heavy Electricals Limited	Company	Asia	Climate change, pollution and emissions	
BMW Group	Company	Europe (excl Netherlands)	Good corporate governance	
Bollore	Company	Europe (excl Netherlands)	Human rights	
BP Plc.	Company	Europe (excl Netherlands)	Climate change, pollution and emissions	
Bristol-Myers Squibb Company	Company	North America	Health care	
Broadcom	Company	North America	Good corporate governance	

Company	Engagement type	Region	Theme 1	Theme 2
Centene Corporation	Company	North America	Good corporate governance	
Charter Communications	Company	North America	Good corporate governance	
Chevron Corp.	Company	North America	Climate change, pollution and emissions	
China Huarong Asset Management Co Ltd	Company	Asia	Good corporate governance	
China Northern Rare Earth (Group) High-Tech Co Ltd	Company	Asia	Climate change, pollution and emissions	
China Railway Group Ltd	Company	Asia	Human rights	
Chocoladefabriken Lindt & Sprüngli AG	Company	Europe (excl Netherlands)	Human rights	
Chubu Electric Power	Company	Asia	Good corporate governance	
Coloplast A/S Class B	Company	Europe (excl Netherlands)	Health care	
Comcast Corporation	Company	North America	Good corporate governance	
CVS Health	Company	North America	Good corporate governance	
Daiichi Sankyo Company, Limited	Company	Asia	Health care	
Daimler AG	Company	Europe (excl Netherlands)	Good corporate governance	
Daimler AG	Company	Europe (excl	Good corporate governance	

Company	Engagement type	Region	Theme 1	Theme 2
		Netherlands)		
Dell Technologies	Company	North America	Good corporate governance	
DENSO Corporation	Company	Asia	Good corporate governance	
Dish Network Corporation	Company	North America	Good corporate governance	
DMCI Holdings Inc.	Company	Asia	Human rights	
DuPont de Nemours, Inc.	Company	North America	Climate change, pollution and emissions	
Eisai Co., Ltd.	Company	Asia	Health care	
Eli Lilly & Company	Company	North America	Health care	
Enbridge Inc	Company	North America	Human rights	
Enel SpA	Company	Europe (excl Netherlands)	Human rights	
Engie S.A.	Company	Europe (excl Netherlands)	Climate change, pollution and emissions	
ENI	Company	Europe (excl Netherlands)	Climate change, pollution and emissions	
Equifax Inc	Company	North America	Good corporate governance	
ETP	Company	North America	Climate change, pollution and emissions	
Facebook Inc	Company	North America	Good corporate governance	

Company	Engagement type	Region	Theme 1	Theme 2
General Mills	Company	North America	Health care	
GlaxoSmithKline Plc	Company	Europe (excl Netherlands)	Health care	
Glencore Plc.	Company	Europe (excl Netherlands)	Health care	
HeidelbergCement AG	Company	Europe (excl Netherlands)	Human rights	
Hitachi Chemical Company, Ltd.	Company	Asia	Good corporate governance	
Hyundai Motor Company	Company	Asia	Good corporate governance	Human rights
Iberdrola	Company	Europe (excl Netherlands)	Good corporate governance	
Industrial And Commercial Bank Of China Ltd	Company	Asia	Good corporate governance	
ING Groep N.V.	Company	The Netherlands	Good corporate governance	
International Business Machines	Company	North America	Good corporate governance	
Interpublic Group of Companies, Inc.	Company	North America	Good corporate governance	
JBS S.A.	Company	Rest of the World	Good corporate governance	Human rights
Johnson & Johnson	Company	North America	Human rights	
Juniper Networks	Company	North America	Good corporate governance	

Company	Engagement type	Region	Theme 1	Theme 2
Korea Electric Power Corporation	Company	Asia	Human rights	
Korean Air Lines Co.,Ltd.	Company	Asia	Good corporate governance	
Kyushu Railway	Company	Asia	Good corporate governance	
McKesson	Company	North America	Good corporate governance	
Medtronic	Company	North America	Health care	
Merck & Co., Inc.	Company	North America	Health care	
Merck KGaA	Company	Europe (excl Netherlands)	Health care	
Mining and Metallurgical Company NORILSK NICKEL PJSC	Company	Rest of the World	Climate change, pollution and emissions	
Mitsubishi UFJ Financial Group, Inc.	Company	Asia	Climate change, pollution and emissions	
Mizuho Financial Group, Inc.	Company	Asia	Climate change, pollution and emissions	
Mohawk Industries Inc.	Company	North America	Good corporate governance	
Mondelez International, Inc.	Company	North America	Human rights	
Mondelēz International, Inc.	Company	North America	Health care	Human rights
Nestlé S.A.	Company	Europe (excl Netherlands)	Human rights	
Nissan Motor Co., Ltd.	Company	Asia	Good corporate governance	

Company	Engagement type	Region	Theme 1	Theme 2
NN Group	Company	The Netherlands	Good corporate governance	
Novartis AG	Company	Europe (excl Netherlands)	Health care	
Olam International Limited	Company	Asia	Human rights	
Olympus Corporation	Company	Asia	Human rights	
Oracle	Company	North America	Good corporate governance	
PepsiCo Inc.	Company	North America	Health care	
PG&E Corp	Company	North America	Human rights	
Phillips 66	Company	North America	Human rights	
POSCO	Company	Asia	Human rights	Climate change, pollution and emissions
POSCO INTERNATIONAL Corp.	Company	Asia	Human rights	Climate change, pollution and emissions
Ratch Group Public Co. Ltd.	Company	Asia	Human rights	
Repsol	Company	Europe (excl Netherlands)	Climate change, pollution and emissions	
Royal Dutch Shell	Company	The Netherlands	Climate change, pollution and emissions	
Samsung Electronics Co., Ltd.	Company	Asia	Good corporate governance	

Company	Engagement type	Region	Theme 1	Theme 2
SBA Communications Corporation	Company	North America	Good corporate governance	
Severstal	Company	Rest of the World	Human rights	
Stryker Corporation	Company	North America	Human rights	
Sumitomo Metal Mining	Company	Asia	Human rights	
Sumitomo Mitsui Financial Group	Company	Asia	Climate change, pollution and emissions	
Suruga Bank Ltd.	Company	Asia	Good corporate governance	
Swedbank AB	Company	Europe (excl Netherlands)	Good corporate governance	
Taishin Financial	Company	Asia	Good corporate governance	
Takeda Pharmaceutical Co. Ltd.	Company	Asia	Health care	
Teva Pharmaceutical Industries Limited	Company	Rest of the World	Good corporate governance	
The Hershey Company	Company	North America	Human rights	
Tiger Brands Limited	Company	Rest of the World	Human rights	
TJX Companies Inc	Company	North America	Good corporate governance	
Tokyo Electric Power Company Holdings, Incorporated	Company	Asia	Climate change, pollution and emissions	
Tokyo Electric Power Company, Incorporated	Company	Asia	Climate change, pollution and emissions	

Company	Engagement type	Region	Theme 1	Theme 2
Total S.A.	Company	Europe (excl Netherlands)	Climate change, pollution and emissions	
Uber Technologies, Inc.	Company	North America	Good corporate governance	
Unibail-Rodamco-Westfield	Company	Europe (excl Netherlands)	Good corporate governance	
Vale S.A.	Company	Rest of the World	Human rights	
Volkswagen AG	Company	Europe (excl Netherlands)	Good corporate governance	Climate change, pollution and emissions
Walt Disney	Company	North America	Good corporate governance	
Wells Fargo	Company	North America	Good corporate governance	
Yahoo Japan Corp	Company	Asia	Good corporate governance	
Zijin Mining Group Company Limited	Company	Asia	Human rights	