Private Equity

Annual Responsible Investment Report

2021

PGGM

About PGGM Investments

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

Introduction

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

We are pleased to present PGGM's fourth Private Equity Responsible Investment Report, which highlights our ongoing commitment to responsible investment. In this report, we focus on (i) updating you on the ESG characteristics of our portfolio, including the third year of investing our private equity impact sleeve, and (ii) informing you on what we have accomplished related to ESG and SDI investments in 2021.

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

"In 2021, we have focused on encouraging our GPs to become part of the ESG data convergence initiative as well as engage with our GPs on their efforts in relation to climate with a continued focus on GHG emissions and their alignment with the Paris Agreement. With PFZW sharpening its medium term targets in its climate policy we are focused on promoting improvement in these areas over time across our portfolio."

Maurice Klaver
Director

Highlights for PE in 2021

- **GP engagement:** Engaged with 43 of 67 go-forward GPs in our portfolio – we saw improvements in the ESG Integration scores with 26 of them
- **UNPRI signatories:** We saw a massive step up in the number of GPs that committed to become a UNPRI signatory. From 28 to 50 of our 67 go-forward GPs, which represents 75%
- **ESG Data Convergence Initiative:** Actively supported the ESG Data Convergence Initiative, which aims to standardize ESG disclosure metrics, initially as a founding member and subsequently as a member of the Steering Committee
- **ESG KPIs:** Helped drive a significant increase in the number of GPs reporting on company level ESG KPIs from 28 in 2020 to 64 in 2021[1]
- **SDIs:** In 2021 we have committed €252 million from the private equity sleeve that focuses on SDIs. In its third year since launch, 3 fund commitments and 3 co-investments were added
- **ESG training:** Conducted ESG trainings for the entire PE team on ESG due diligence for potential acquisitions, organised by MJ Hudson, an ESG consultant (Spring 2021); ESG assessment for potential co-investments (Fall 2021); and unconscious biases (Winter 2021)

KPIs for PE in 2021

- **Net return:** 17.3% average net return over the past 10 years
- **GP Assessment:** 88% of capital invested with GPs that score either “High” or “Very High” on our ESG Integration Assessment
- **Reporting:** 79% of our go-forward GPs (i.e. GPs where we committed to their last fund) report on ESG on either an annual or quarterly basis
- **ESG Data Convergence Initiative:** 75% of the GPs in our portfolio provided input on our request to submit data for the ESG Data Convergence Initiative on company level

1 The level of completeness varies from GP to GP

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1. Responsible Investment at PGGM and in PE

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

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

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

This report will address 2021, the second year of the COVID-19 pandemic. We have been pleased by the continuing response of our GPs during this crisis which has universally been to focus in the first instance on the health and safety of its employees and those of its portfolio companies. We are also very pleased with the significant uptick in GPs that became part of the ESG Data Convergence Initiative.

2021 Goals/Ambitions	2021 Results
Set a plan to be aligned with the Paris Agreement.	Initial investigation has been done, which led to PFZW communicating its plan in 2022. PGGM PE engagement and implementation to follow.
Better quality and quantity GHG emissions data for our total portfolio.	Not achieved, although we received more data, still a lot of data is missing and too much manual work is required.
Increasing transparency about the adverse impacts directly and indirectly linked to our investment portfolio.	RepRisk screening implemented – which improves visibility on the adverse impacts on our portfolio.
Strengthen our SDG strategy by increasing SDIs and measuring the impact.	Increased the exposure substantially through 3 new fund commitments and 3 co-investments. First annual impact report for SDI investments.

Private Equity team as per September 2022

Head of PE & Directors


Diane Griffioen
Head of Private Equity


Harrie van Rijbroek
Director


Maurice Klaver
Director (SDIs)


Berend Schiphorst
Director


Wouter van der Geest
Director


Irina Manea
Director

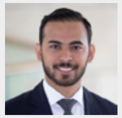
Investment Managers


Diederick Plasmans
Senior Investment Manager


Michael Bos
Investment Manager (SDIs)


Krishan Bridjmohan
Investment Manager


Gust van der Meeren
Investment Manager


Talha Zafar
Investment Manager

Associates


Mark Al
Associate


Tamara Ertner
Associate


Ester Nafee
Associate (SDIs)


Stepan Naumov
Associate


Rita Nguyen
Associate


Jocelyn Yang
Associate


Daniel Zwier
Associate

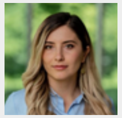
Direct Support


Laura Hoogstraten
Mid office


Serhat Karaduman
Mid office


Bo Furman
Executive Assistant

Analysts


Besmire Ahmati
Analyst


Marlin Broeks
Analyst


Remco Brouwer
Analyst


Veniamin Ciubotaru
Analyst


Michiel Colijn
Analyst


Jan Paul van Hees
Analyst

Responsible Investment


Rui Chang
Advisor

As per September 2022

27	10	33%	33
professionals	nationalities	women in the team	average age

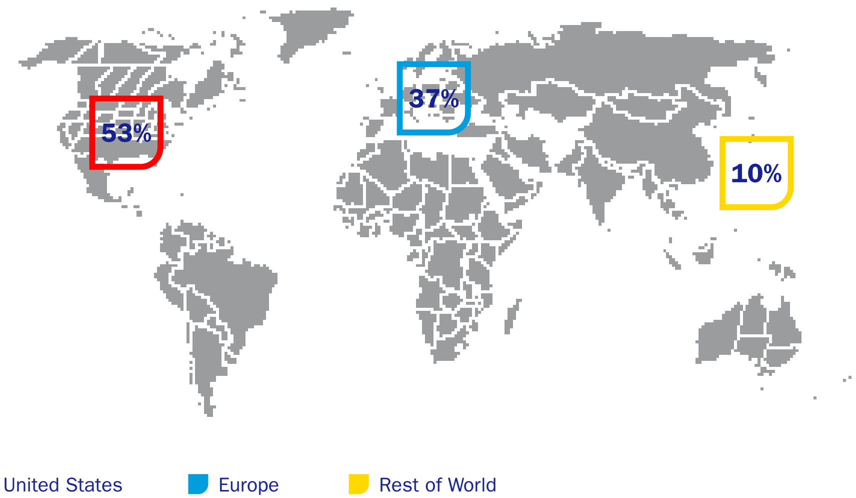
	2018	2019	2020	2021
% of women senior investment team	13%	29%	38%	29%
% of women investment team	14%	33%	32%	27%
# in senior investment team	8	7	8	7
# in team	22	21	22	26

- Since the last report, we have hired a new head of the PE team, one director, one investment manager, two associates, six analysts and two direct support professionals. During this time in total 12 investment professionals have left the team.
- We plan to hire an additional investment manager, an ESG expert as well as an additional SDI analyst.

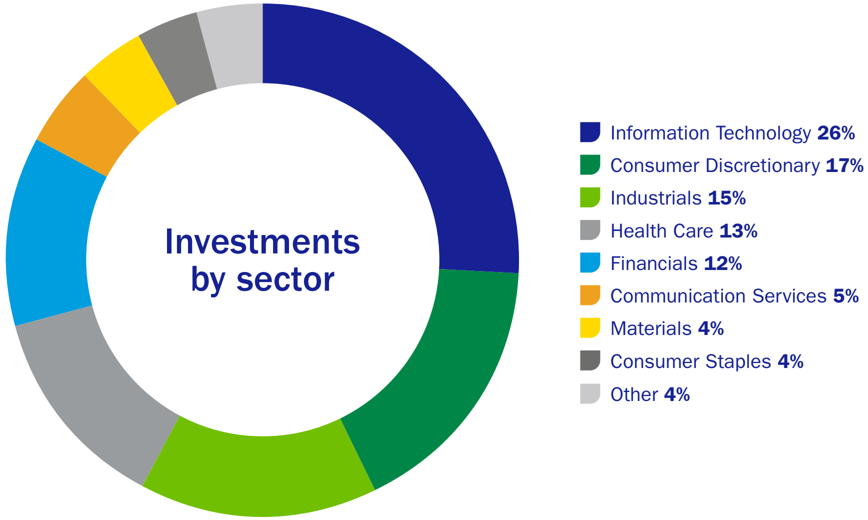
2. Our portfolio at a glance

PGGM PE had a total of €21.8 billion in assets under management as of 31 December 2021. Our objective is to outperform the public markets by 2.5%, which we have exceeded historically. We have achieved a 10-year average return of 17.3%.

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



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



PGGM was an early investor in private equity, starting in 1983. From 2000 until 2010, it outsourced its private equity investing to AlpInvest. Since 2010, it has built up in-house expertise via an internal PE team. The rest of this report focuses on the portfolio that the PGGM PE team has built since 2010, representing 75% of the total PE portfolio.

As of 31 December 2021, PGGM PE's portfolio consists of 81 individual GPs as well as 162 primary fund investments, 71 co-investments, and 11 secondary fund investments. In 2021, PGGM PE made 13 primary fund commitments, 22 co-investments, and 1 secondary fund investment.

3. Our approach to ESG

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

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

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

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

Selection (Ch. 4)	Commitment (Ch. 5)	Ownership (Ch. 6)
• Due diligence for funds using GP ESG Integration Assessment • Due diligence for co-investment using SASB • Look at sector and country ESG risk	• Include adherence to PE ESG and Exclusion Guidelines in the side letter • Include ESG action plan and reporting according to PGGM's reporting template, which includes ESG incident reporting, in the side letter	• Monitoring GPs on adherence to agreed upon ESG approach • Engage on ESG issues with each active GP on an annual basis • New in 2021: - We have expanded our exclusion policy to include investment in thermal coal and tar sands utilities and mining as well as investment in companies that very severely violate the OECD Guidelines for Multinational Enterprises and/or the UN Global Compact Principles. - We have expanded our 2020 process to gather GHG emissions and diversity KPIs from each of our GPs on an annual basis, to closely align with the ESG Data Convergence Initiative and include more ESG KPIs.

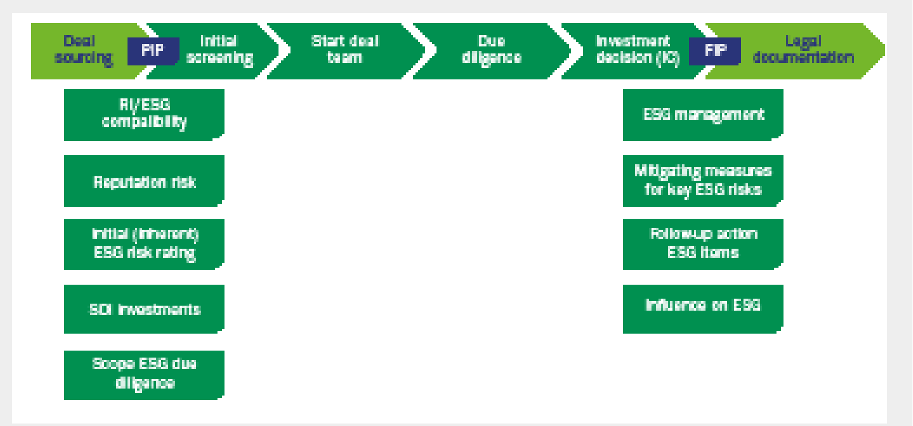
4. The selection stage: screening and due diligence

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

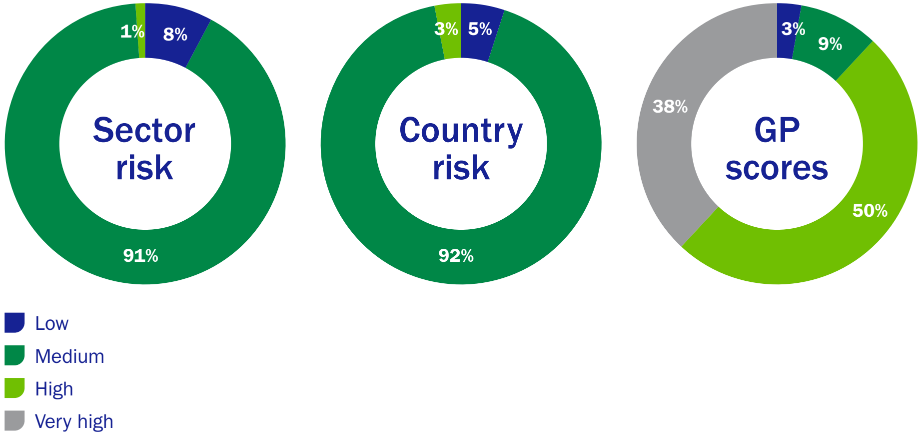
4.1 ESG sector and country risk

The PGGM PE team uses data from external data providers, such as MSCI and Sustainalytics, to determine the sector and country risks within the underlying companies in a GP's portfolio. This gives us primary insights into the ESG risks in the underlying portfolio companies.

The combined data on an assets' ESG risks and its managers' ability to manage them, as defined by our GP ESG Integration Assessment, enables the PE team to assess the ESG risks in the portfolio. We are comfortable investing in higher risk countries and sectors as long as we partner with GPs that can effectively manage these risks.



PIP = preliminary investment proposal; FIP = final investment proposal



> **“PGGM takes ESG seriously and has an ambitious agenda to continuously improve. It is not always easy to get all GPs engaged on all our efforts, but we continuously try to find the balance between setting a high bar in order to remain at the forefront of ESG and considering what is realistic and adds value for both our GPs and our own stakeholders.”**

Gust van der Meeren
Investment Manager

4.2 GP assessment

During the due diligence phase the PGGM PE deal team will use an ESG questionnaire to assess management of ESG at the GP. This questionnaire, our ESG Integration Assessment, has seven questions drawing from the PRI’s Due Diligence Questionnaire. It includes questions relating to RI policy and responsibility at the GP; involvement in industry initiatives (e.g. UNPRI and EDCI); ESG integration in day-to-day activities, with specific sub-questions about their approach to climate change and diversity, equity, and inclusion; ESG monitoring; and ESG reporting, resulting in a score of 1 (worst) to 5 (best). The PGGM PE team uses the framework to score the GPs in the due diligence period before investing and then also for monitoring.

The scoring of GPs is summarized within the final investment proposal (FIP), the document upon which the relevant investment committee takes a decision on whether or not to make a commitment. During the deal team process, PGGM PE investment professionals, challenged by the Risk team and supported by the RI team when necessary, consider the ESG risks and opportunities of each investment. The PGGM PE investment committee is committed to showing an improvement in ESG implementation within the portfolio over time.

We are willing to invest with GPs with lower scores on their GP ESG Integration Assessment if they are committed to improve over time.

> **“PGGM PE has a strong emphasis on integrating ESG considerations in all its investments. We review investments weighing up the risk-return profile alongside the ESG impact. As an example, during the year we were offered the opportunity to invest alongside an existing relationship in a multi-species animal breeding, genetics, and technology company, which had an attractive risk-return profile. We believe, however, that our focus should be centred around alternative proteins and therefore did not pursue the investment. We continue to push the ESG agenda and engage with our GP’s to be industry leading.”**

Michael Bos
Investment Manager

5. The commitment stage

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

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

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

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

Requirements regarding reporting have been incorporated into the legal documentation with GPs since 2015. We continue to focus on encouraging our GPs to report on company level KPIs for their portfolio. We are pleased to have seen a significant increase in the number of our GPs doing so – today this represents 75%[2] of our relationship GPs. We hope a continued focus on reporting will drive further improvements across the industry.

New in 2021: We ask that our GPs report to us annually on the metrics of the ESG Data Convergence Initiative.

2 Reported on ESG KPIs via the PGGM or EDCI template

6. The ownership stage: monitoring, engagement and reporting

During the investment period of the fund, PGGM PE engages annually with GPs to encourage improvement regarding ESG integration.

6.1 Monitoring

The PE team monitors improvements using the ESG Integration Assessment for our GPs in our monitoring meetings, where the broader fund and/or co-investment portfolio is also discussed. In addition, ESG incidents in the portfolio are discussed in our weekly team meetings when necessary.

Since 2021, we have added the use of RepRisk ESG Risk Platform to our monitoring process. This tooling allows us to conduct in-depth risk research and monitor the ESG risk on daily basis via customized watchlists and a tailored email alert service.

6.2 Engagement

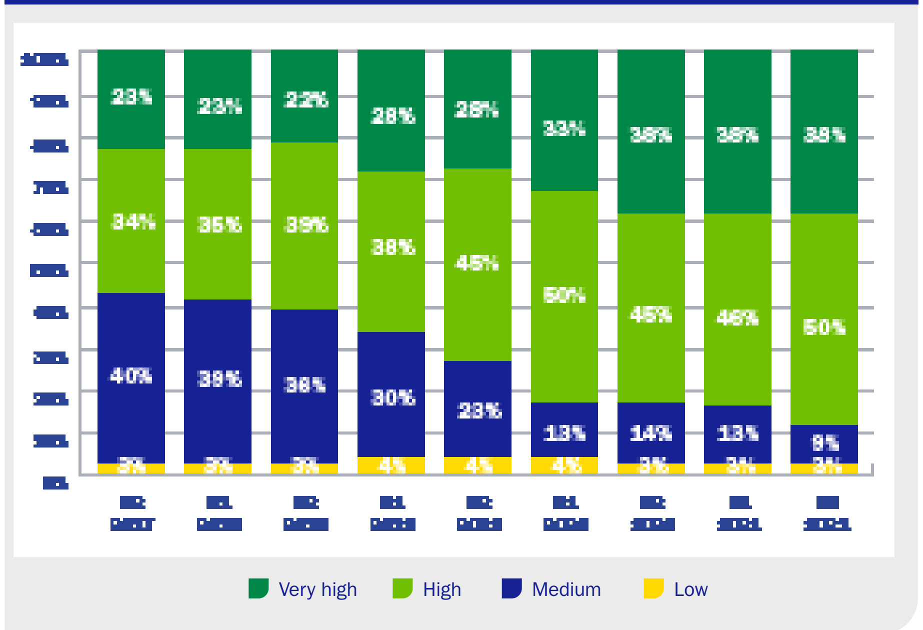
The GP ESG Integration Assessment and the ESG country and sector risks identified can be helpful when approaching new and engaging with existing GPs. The analysis provides us with a good context to engage with our partners on how they integrate ESG in their investment process. In addition, it is an instrument to gain insight into which partners are lagging and it enables us to identify whether the portfolios of our GPs contain more or less ESG risks.

The PE team targets to engage annually with every GP in our portfolio where we have committed to their last fund. We generally spread this out through the year to engage with roughly a quarter of those GPs every three months.

In 2021, we again asked our GPs to report at portfolio company level on ESG KPIs on GHG emissions and gender diversity, to which we added the KPIs from the ESG Data Convergence Initiative (e.g. renewable energy consumption, health and safety, net hires and employee engagement).

Our engagement process typically involves having a call or meeting with the GP to share best practices, discuss updates, and discuss ways to continue improving on the approach that they and their portfolio companies take to ESG and reporting to LPs. In 2021, we pro-actively engaged with 43 GPs (64% of our go-forward GPs) and we were pleased that 26 (39%) of them showed significant improvement.

ESG scores of GPs



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

While not all GPs in the PE portfolio are UNPRI signatories, their share has been steadily increasing over the past years. In 2021, we saw a big increase in the number of signatories – 50 (75% of our go forward GPs) are now signatories as compared to 28 (42%) a year ago. We continuously encourage GPs to join the UNPRI and other relevant industry initiatives.

6.3 Reporting

PGGM also engages with the market in order to improve ESG performance. We enter into a dialogue about sustainability with partners and stakeholders to elevate the private equity industry to a higher level. Among other things, we aim to strengthen ESG reporting standards.

In recent years, we have seen a proliferation of sustainability-related initiatives. These often focus on public markets and it is becoming clear that private equity (PE) needs to catch up. In 2021, we participated in the ESG Data Convergence Project (now ESG Data Convergence Initiative), the first partnership in the PE industry between private equity firms (GPs) and its investors (LPs), as a founding member and member of the Steering Committee. This project aims to standardize ESG disclosure metrics. The convergence started with six metrics, including Scope 1 and 2 greenhouse gas (GHG) emissions, renewable energy, board diversity, work-related injuries, net new

"We have done work on best practices across our GPs over the last year to be able to share this amongst our partners. This involves amongst others: (1) ESG policy: with clear ESG actions in different investment stages, and transparency on potential limitations in ESG integration; (2) Industry Initiatives: We promote the Science Based Targets initiative (SBTi) for Private Equity with all our GPs and have seen multiple GPs taking this on; (3) Integration in process: we like to see a standardised process that facilitates an ESG value creation plan for all portfolio companies including ESG on the board agenda and regular meetings with portfolio company ESG managers; (4) Monitoring: we see evolving monitoring dashboards to show whether portfolio companies improve in their ESG performance, which ideally takes into account materiality, it should drive concrete focus areas for future ESG efforts; (5) Reporting: GPs at the forefront of the market include reporting on Principal Adverse Impact indicators (PAIs) under the Sustainable Finance Disclosure Regulation (SFDR)."

Rui Chang
Advisor Responsible Investment

hires, and employee engagement. This will help us to achieve our clients' climate ambitions and it supports our best effort to comply with the European sustainability disclosure regulation. After having started collecting GHG emissions data across the PE portfolio, we faced a clear gap in terms of data availability in the PE industry. By supporting this LP-GP partnership, we are committed to further collaborating with LPs as well as engaging with our GPs to achieve full portfolio ESG transparency.

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

We are pleased to see that our GPs reporting on company-level KPIs increased from 24% in 2019 to 40% in 2020 to 75%[3] in 2021, since this has been a focus area for us since 2019. These figures indicate the market is moving towards improved reporting, including reporting on company-level KPIs. As ESG awareness becomes increasingly widespread in the market, we expect this trend to continue with even more GPs providing more detailed ESG reports in the coming years.

As one of the organizations which helped found the UNPRI, PGGM has been a signatory since 2006 and participates actively. PGGM PE has also been a formal member of the Institutional Limited Partners Association (ILPA) since 2010. We currently serve on the ECDI's Steering Committee. Lastly, PGGM is also a part of the affiliated network of Invest Europe.

6.4 Material ESG Incidents

While PGGM tries to protect its investments and clients from ESG related risks, incidents nevertheless occur occasionally. The focus following an incident is on how the GP and/or portfolio company manage the situation and resolve problems for all stakeholders. In 2021, there were two material incidents logged. We are still monitoring the situation for these incidents.

Harrie van Rijbroek
Director

"In 2021, a serious cyber security incident occurred at one of our portfolio companies, resulting in the temporary halt of its business activities. The company quickly responded to contain the damages and brought in external experts to help with its response. It also reached out to the relevant authorities, customers, and other stakeholders to inform them of the incident and launched an investigation to determine its causes and avoid these in the future. Serious cyber security incidents are deemed ESG incidents and we appreciated that, as per our policy, the GP reported it to us promptly. This allows us to actively engage with the ESG issues in our investments and be prepared to react appropriately in case of adverse press."

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

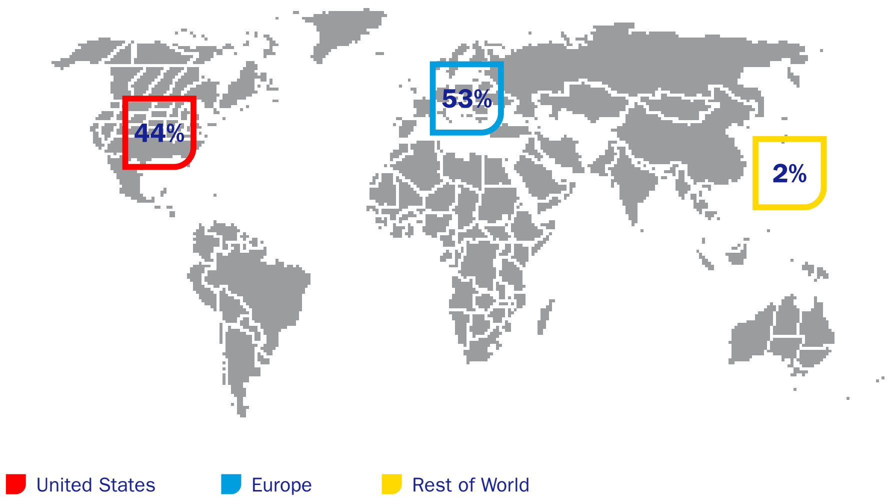
7. ESG in our Co-investments

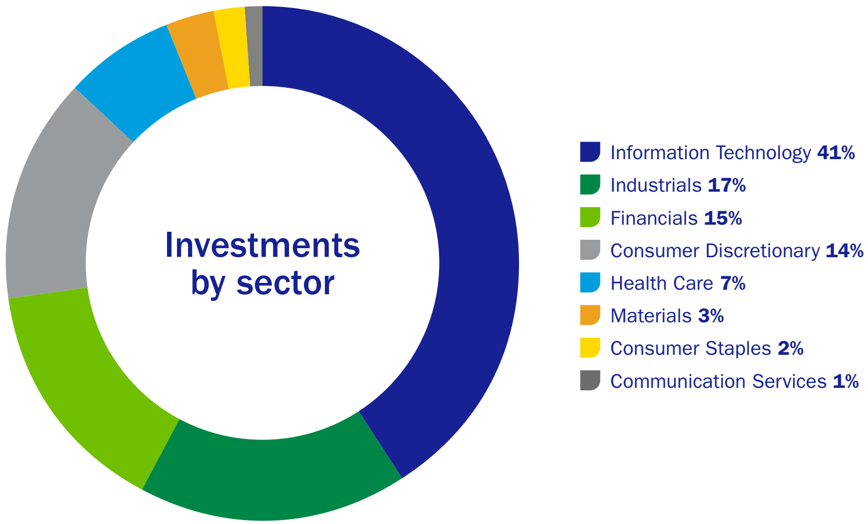
In addition to the GPs in the PE portfolio, PGGM has to date completed 85 co-investments of which 71 are still unrealized. Of these, the vast majority is headquartered in the US and Europe, only two investment have thus far been in emerging markets. A breakdown of investments by sector can be seen below, with the most significant being Information Technology.

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

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

PGGM tends to co-invest alongside GPs with higher than average ESG scores. GPs with which PGGM has done co-investments have an average ESG score of 4.0 (out of 5), as compared to 3.9 in the full PE portfolio.





Our co-investment in ConvenientMD alongside Bain Capital Double Impact is a good example of a Sustainable Development Investment. The profile of ConvenientMD fits in our SDI framework. Bain's impact thesis was driven by (1) expansion of new clinics to provide broader urgent care access and (2) launching advanced primary care to provide value-based primary care to underserved regions.

Access to quality healthcare is a major concern across rural areas in the U.S. including northern New England where rising costs, dispersed populations and constrained medical labor pools threaten the supply and stability of hospitals, primary care and other healthcare infrastructure. The result is a lack of treatment, poor health outcomes and constantly rising cost pressure. ConvenientMD provides a high-quality, convenient, affordable option for treating injuries and illnesses.

Healthcare in the US has historically segmented primary care to independent physicians and acute care to hospital settings and has been limited by a lack of coordination between providers as well as disparate or paper-based data reporting systems. This has led to a system where medical care in the US is often expensive, with long waiting times and where rural hospitals face financial and operational difficulties. In many communities, ConvenientMD is the only alternative to hospital Emergency Departments, where the cost of treatment can cost 5-7x more.

ConvenientMD offers a wide array of services ranging from the treatment of common illness and flu shots to broken bones and lacerations, all in modern and conveniently located clinics. The Company offers virtual on-demand-care, in-person care seven days a week, ensuring patients access to treatment where and when they need it most. With this differentiated approach, ConvenientMD has quickly grown to be the largest urgent care provider in New Hampshire and Maine and proved that communities such a Littleton, NH with less than 10,000 residents, can support a thriving clinic. ConvenientMD now operates in 25+ locations throughout Maine, New Hampshire andMassachusetts and saved patients in New England well over $1.5 billion in healthcare costs since they opened in 2012.

8. Sustainable Development Investments

Our largest client, PFZW, has set an ambitious target to invest 20% of its AuM in investments that contribute to the UN SDG goals by 2025. 18% or €52.7 billion has been invested for PFZW in such investments as per the end of 2021. The PE team contributes towards achieving this goal.

8.1 Our Focus Areas

SDIs are clearly defined investments that not only contribute to the portfolio's financial return, but are also intended to generate societal added value. With the ambition of PFZW to invest 20% of their AuM in investments that contribute to the UN Sustainable Development Goals (SDGs) by 2025, we have adjusted our scope accordingly.

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

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

Each year we calculate the impact of these investments over the previous year: in addition to the financial return, we indicate how these investments contributed to the selected themes. We use impact data reported by companies and impact data based on impact models for this purpose.[4] In this calculation, we only allocate the share of the total impact to us that matches our share in the company or the fund. For a more detailed explanation of how the impact is calculated, please visit our website.[5] During 2021, there were three new fund commitments and three co-investments that contributed to an increased allocation to SDG investments in the PE portfolio.

> "In 2021, we committed $50m to Ara Partners Fund II. Ara Partners focuses on industrial decarbonization and industrial development. Ara is uniquely positioned in the industrial decarbonization space, and the investment in Ara II provides us the ability to invest in several class leading investments which make a tangible impact in reducing carbon footprint."

Ara makes an impact by investing in buyout and industrial growth companies that reduce greenhouse gas emissions and/or waste, while making everyday products available at competitive prices. Targeted areas include food waste, industrial waste production, carbon capture and renewable energy projects EPC.

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

8.2 Our contribution to the SDGs

In 2021, we analysed for the 4th time which of the investments on behalf of our clients contribute to the 17 UN SDGs. We estimated that by the end of 2021, PE had invested €1.8 billion in companies that contribute to at least one of the SDGs. This is 8% of the total invested capital within the portfolio.

Please see the taxonomies we used to determine whether an investment contributes to an SDG: SDI taxonomies and guidance 2021. We developed this together with APG in order to have more comparable results. While the SDI taxonomy leaves room for different interpretations, we are keen to further align impact standards with our peers via the Asset Owner Platform for Sustainable Development Investments (SDI-AOP).

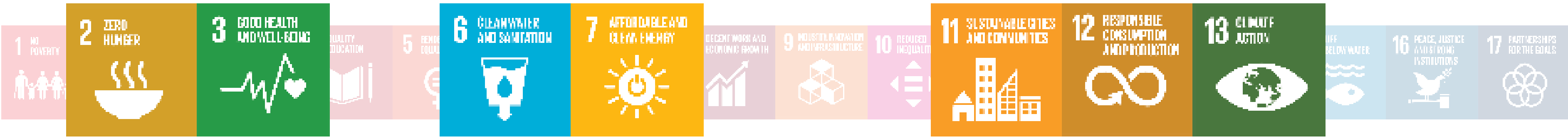
One of the biggest challenges is of course the lack of data. Most of the companies still do not report on how they contribute to sustainability and when they do they have different definitions. Another challenge is taking into account the potential and actual negative impact when counting something as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

Please read more about the SDIs and the challenges in the PGGM Integrated report 2021.

8.3 SDI team within private equity

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

PGGM has formed a dedicated team within the private equity department. This team works full time on sourcing and executing investments in private equity funds that invest in companies that have a positive contribution to one or more of the mentioned SDGs. Next to fund investments, the team has a target to invest a significant amount of the allocated capital through co-investments. With this approach the additional costs of the strategy will be mitigated and it provides the opportunity to specifically build up exposure to individual companies that fit the core focus SDGs. PGGM had initially allocated €500 million to this private equity SDI allocation, but has decided to increase this to at least 5% of the private equity portfolio, which would imply an amount larger than €1 billion based on the exposure to PE at the end of 2021.



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

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

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

"With all our GPs we have an agreement that they will report on the impact they generate with the investments on an annual basis. The number of portfolio companies that have been in the SDG portfolio for the full year 2021 is limited with currently 38 companies, but we have received KPIs for all our fund and co-investments that we have held in our portfolio since 2019. However the quality and granularity of the impact data varies.

Some highlights include:

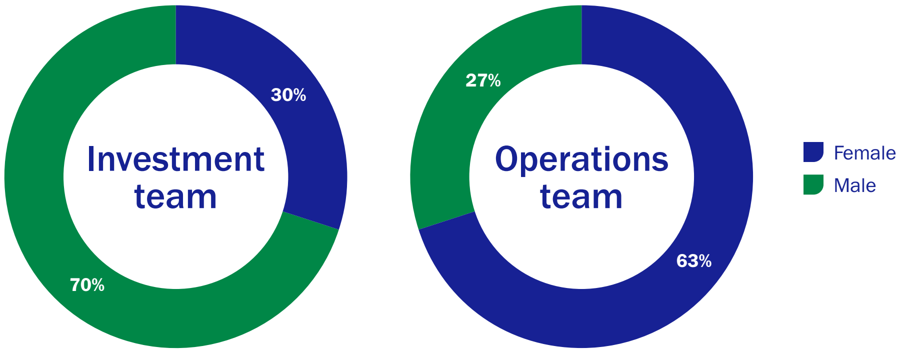
- GHO III: The investments made in 2021 contribute to better, faster and more accessible healthcare and the fund is currently preparing a more structured impact KPI assessment approach.
- Summa III: Frontrunner in the impact department, Summa publishes a portfolio report four times a year with a section on impact performance.
- ARA Fund II: Ara works with management teams to enhance greenhouse gas ("GHG") and waste reduction goals, while closely tracking environmental impact. In 2021, Ara Fund II was responsible for the reductions of 170,636 metric tons of CO2.
- CovenientMD: Bain Capital Double Impact partnered with ConvenientMD to launch an Impact Council of a diverse group of cross functional leaders to help the company become a certified B Corp in 2022.
- Aksiom Services Group & Anesco: Based on expected levels of activity, Ara forecasted an estimated CO2e reduction in 2030 of 373,581metric tons, which is the equivalent of roughly 100,000 typical passenger cars emissions per year.
- Registrar Corp: The company is helping its 30,000 clients to provide safer and more transparent food options across global markets.

9. Climate change and diversity, equity & inclusion

In 2021, the PGGM PE team continued encouraging its GPs to take steps to measure and report on their GHG emissions as well as their diversity, equity, and inclusion (DEI) initiatives. We did this through our normal annual engagement meetings as well as by creating a new template with specific ESG KPIs for our GPs to share with us. These included:

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

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



Based on the available data, we can report the following diversity statistics: Investment team (female 30% / male 70%); Operations team (female 63% / male 27%).

- We have received scope 1, 2, and 3 emissions data for a significantly larger part of our GPs than last year, (which stood at 27% for scope 1).
- We also got substantially more information on the energy usage within the portfolio companies of our GPs, including the share of renewable energy being used.

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

- 86% of our GPs reported to us on gender diversity at their firm
- The vast majority of our GPs reported on gender diversity of senior leadership and boards at their portfolio companies

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

10. Outlook

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

Our main client, PFZW, has adjusted our PE mandate to put sustainability outcomes at the same level as financial risk and return. To be able to implement this, we will continue to increase our efforts to acquire more data around sustainability and impact to continue to improve our investment process and decisions.

Going forward, we expect significant development on sustainability topics from different stakeholders. First, ambitions around climate change are growing and we have set a goal to be fully aligned with the Paris Agreement by 2040. In tandem with this trend, our clients have committed to the Dutch Climate Agreement. However, there is a gap in terms of data maturity in the PE industry, and the PGGM PE team aims to drive better GHG emissions data for our portfolio in both quantity and quality. Secondly, we see the demand for increased transparency about the adverse impacts directly or indirectly linked to our investment portfolio. This is not only required by our clients as signatories of the International Responsible Business Conduct Agreement, but also by the Sustainable Finance Disclosure Regulation.

Finally, we will further strengthen our SDG strategy by increasing SDIs and by measuring their impact. This is also in line with the broader trend in measuring and increasing the alignment with the EU Taxonomy. Over the longer term, we hope to help drive improvements in these metrics as well as on their level of reporting. We will also engage with UNPRI to see how we can further improve our process to achieve a five star rating.

We expect to add a dedicated ESG expert to our team in 2023, who will help to further improve our ESG assessment and engagement with GPs. This will also help us to improve our ability to gather and analyze data from our GPs and portfolio companies, with the aim to report the ESG developments in our portfolio in a more granular and visual manner.