

# Responsible Investment Implementation Framework

PGGM Vermogensbeheer B.V.

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# Explanation of the Responsible Investment Implementation Framework

## Introduction

This document describes the Responsible Investment Implementation Framework of PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM). The Responsible Investment Implementation Framework consists of a number of specific implementation guidelines. The framework and the underlying implementation guidelines are part of the policy framework for responsible investment (see figure 1) and are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

## Implementation Framework and implementation guidelines

The Responsible Investment Implementation Framework consists of different, in some cases fund-specific implementation guidelines. These show how PGGM conducts activities in the field of responsible investment or implements responsible investment in specific asset classes in the PGGM mutual funds and under segregated mandates managed by PGGM for its clients.

The Responsible Investment Implementation Framework comprises the following implementation guidelines:

- Implementation Guideline on ESG integration
- Implementation Guideline on Active Equity Ownership
  - Implementation Guideline on Voting
  - Implementation Guideline on Engagement
  - Implementation Guideline on Shareholder Litigation
- Implementation Guideline on Exclusions
- Implementation Guideline on Investing in solutions for sustainable development

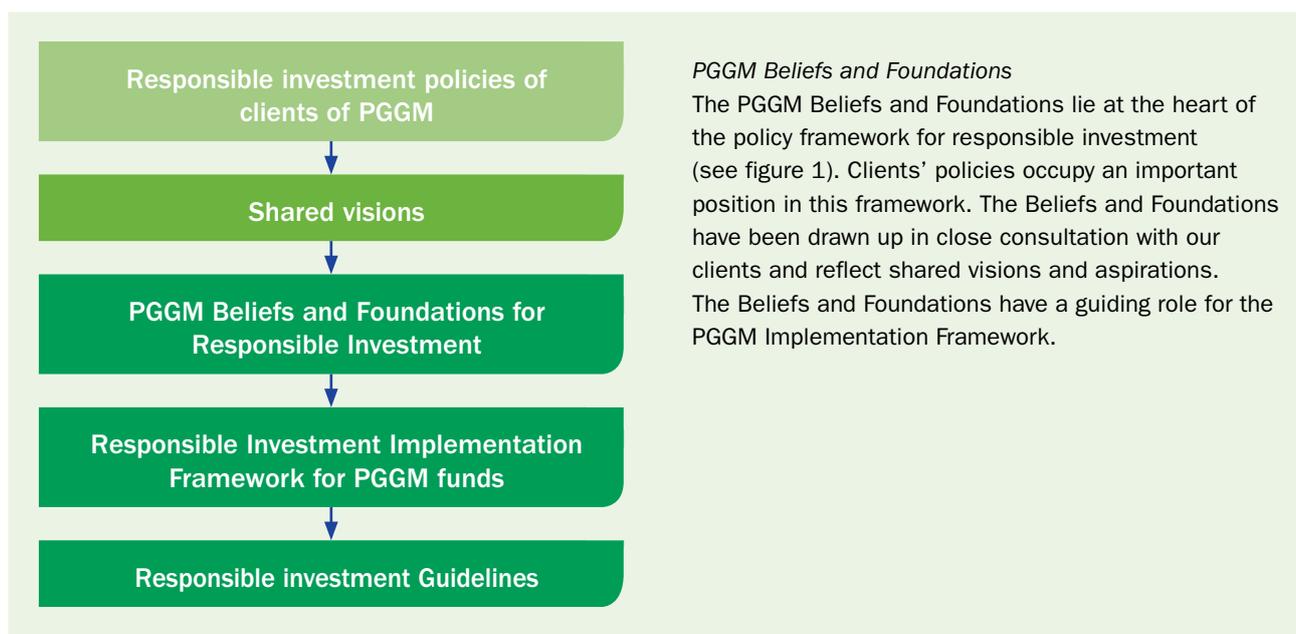


Figure 1 Responsible Investment Policy Framework

## Application of implementation guidelines

### Application in PGGM funds

Figure 2 shows the PGGM funds or fund families to which the various implementation guidelines apply.

	ESG integration	Active equity ownership	Voting	Engagement	Litigation	Exclusions	Investing in solutions
PGGM Developed Markets Equity PF Fund	X	X	X	X	X	X	
PGGM Emerging Markets Equity PF Fund	X	X	X	X	X	X	
PGGM Developed Markets Alternative Equity PF Fund	X	X	X	X	X	X	
PGGM Private Equity Funds	X					X	X
PGGM Listed Real Estate PF Fund	X	X	X	X	X	X	X
PGGM Private Real Estate Fund	X					X	X
PGGM Credits Fund	X					X	X
PGGM High Yield Fund	X					X	X
PGGM Emerging Markets Debt Local Currency Fund	X					X	X
PGGM Infrastructure Funds	X					X	X
PGGM Fund of Hedge Funds	X					X	X
PGGM Commodity Fund	X					X	
PGGM Inflation Linked Bond Fund	X					X	X
PGGM Government Bond Fund	X					X	X

Figure 2. Application of implementation guidelines in PGGM funds or fund families

### Application of implementation guidelines in segregated mandates managed by PGGM

The implementation guidelines also apply, where relevant, to segregated mandates for individual clients which are managed by PGGM. These must be supplemented with client-specific policy guidelines. This is the case, for example, of internally managed segregated mandates for clients in the areas of private equity, real estate, microfinance, real assets, infrastructure, government bonds and structured credit.

### Application of implementation guidelines in the activities of PGGM Treasury B.V.

The implementation guidelines also apply, where relevant, to the activities of PGGM Treasury B.V. PGGM Treasury B.V. was founded to manage the cash positions of the various funds and clients efficiently. Using PGGM Treasury B.V. avoids the need for funds to enter the money market individually to borrow or lend money. PGGM Treasury B.V. is a 100% subsidiary of PGGM Vermogensbeheer B.V.

## Reporting and accountability

PGGM reports quarterly and annually on the fulfilment of the implementation guidelines within the Responsible Investment Implementation Framework. PGGM is committed to and reports on the United Nations-backed Principles for Responsible Investment. PGGM reports to its clients quarterly on relevant developments. It also has a publicly accessible website on which it publishes its Annual Responsible Investment Report, which includes independent assurance of this report. PGGM adheres to the principles of the Global Reporting Initiative (GRI) in compiling the annual report.

## Updating and modification

The Implementation Framework and/or the underlying implementation guidelines are updated annually as necessary to take account of developments, for example when PGGM funds are expanded. PGGM initiates the update and informs clients and other stakeholders accordingly.

Proposals on more substantive changes to the Implementation Framework or underlying implementation guidelines may be put forward by both PGGM and its clients. Extensive and radical changes, which for example could affect the PGGM funds' performance, must first be submitted to the Advisory Board Responsible Investment (ABRI) for an opinion. Such proposed changes must then be submitted to the clients for consultation, accompanied by the ABRI's opinion. Changes proposed by clients are first discussed in participants' meetings for the respective funds.

## Roles and responsibilities

Various parties are involved in defining, implementing and if necessary modifying the Implementation Framework and underlying implementation guidelines. The roles and responsibilities of the respective bodies are as follows:

### Investment Policy Committee (IPC)

The IPC is a PGGM decision-making body which decides – among other things – on policy aspects relating to responsible investment. Clients' interests are a key consideration in this regard. The IPC lays down the PGGM Beliefs and Foundations and the associated Implementation Framework together with the various implementation guidelines and takes decisions on any modifications.

### Investment Committee (IC)

The IC is a PGGM decision-making body which – among other things – takes decisions on the implementation aspects of responsible investment. On the basis of the Implementation Guideline on Exclusions, the IC determines the exclusion lists which are applicable to investments by PGGM. The IC also decides on other aspects which relate to the investments and result from the implementation of responsible investment.

### Clients /Participants' meeting

PGGM's clients have their own responsible investment policy and can choose to draft their own exclusions list. In a participants' meeting the various clients participating in a particular PGGM fund have the opportunity to discuss or take joint decisions on fund-specific subjects. In the context of responsible investment, for example, they can advise to apply additional exclusion criteria to one or more funds or to add specific entities. In such cases, or if other subjects relating to responsible investment are under discussion, the Advisory Board Responsible Investment can be asked for an opinion (see below).

### Advisory Board Responsible Investment (ABRI)

The ABRI is an advisory body on responsible investment established for PGGM and its clients. In advising PGGM the ABRI focuses on fulfilling the PGGM Beliefs and Foundations and the associated Implementation Framework to a high standard and in a manner consistent with the client base as a whole.

In the event of a fundamental change to this Implementation Framework or if PGGM reaches the limits of the framework when implementing responsible investment for its clients, PGGM will seek advice from the ABRI. The IPC takes the ABRI's advice into consideration in its decisions and is accountable to the ABRI and to clients on the decisions taken. On request, the ABRI also provides advice on policy and other matters for individual clients. The ABRI can also provide advice for discussions on responsible investment in a participants' meeting.

### Responsible Investment (RI)

The RI department is responsible for the continuous development of the PGGM Beliefs and Foundations for Responsible Investment and the associated Implementation Framework comprising the various implementation guidelines. To that end RI consults clients, the ABRI and relevant internal bodies. RI has an independent advisory function for clients in relation to their responsible investment policies and their implementation. In that regard RI also supports PGGM and its clients in the critical evaluation of their own behaviour within the financial chain. In addition, RI supports the investment and other departments by providing advice and expertise for the implementation of responsible investment activities, for example if such activities form part of the investment process by means of ESG integration. RI is itself responsible for implementing various responsible investment activities, such as exclusions, voting, engagement and shareholder litigation. Finally, RI actively contributes to PGGM's innovation and thought leadership on responsible investment and provides quarterly and annual reports on responsible investment activities for clients and other stakeholders.

# Implementation Guideline on ESG Integration

## Introduction

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) integrates environmental, social and corporate governance (ESG) factors in its investment processes (also known as ESG integration). This implementation guideline forms part of the PGGM Responsible Investment Implementation Framework. This framework specifies how the various responsible investment activities are conducted for the PGGM funds. The Implementation Framework and the implementation guidelines also apply to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

## Definition

Taking into account the effect of ESG factors on the investment risk and return is a process we call ESG integration. Specifically, PGGM defines this as the structural and systematic incorporation of material ESG factors in existing investment processes. Material ESG factors are those which have a significant impact on the underlying investment, for example by reducing risk, improving revenues or saving costs.

## Objective

PGGM takes account of ESG factors, such as water scarcity, climate change and safe working conditions because these can ultimately affect our clients' investment returns. Conversely, the investee companies and projects can have an impact on the world around them. PGGM therefore firmly believes that taking account of ESG factors contributes to good risk management and can ensure that financial returns are coupled with social returns.

## Implementation

In order to assess whether ESG factors are material for a specific investment, PGGM establishes processes which operate as part of investment decisions. ESG factors thus cease to be ad hoc and become an integral part of the investment process. The approach differs in each investment category. This difference is due to the degree of influence which PGGM can exert on the investment process, for example whether management is external or internal. In addition it makes a difference whether passive or active investment strategies are involved. The effect that ESG factors have on the investment category, such as risk reduction versus improved returns, also plays a role.

PGGM therefore proceeds through a number of stages in each investment category in order to guarantee appropriate integration within the investment process:

- *Drawing up an ESG framework:* PGGM periodically assesses the ESG framework for each investment category. This framework shows which ESG factors affect the financial performance of underlying investments and to what extent.
- *Integration in the investment decision:* PGGM then determines 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:* PGGM also determines 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 performances of the underlying investments are monitored.

The status and development of the implementation of the above stages may differ in each investment category.

## Implementation guidelines in each investment category

Where relevant, PGGM draws up more detailed guidelines for the implementation of ESG integration in specific investment categories. These are also a means of ensuring that internal and external managers implement the ESG integration in the way PGGM requires.

Currently, the following detailed documentation guidelines are available (in English) via the PGGM website:

- Implementation Guideline on Responsible Investment in Real Estate
- Implementation Guideline on Responsible Investment in Infrastructure
- Implementation Guideline on Responsible Investment in Private Equity

Activities in the field of ESG integration are constantly evolving. This investment guideline is updated as necessary to take account of developments such as the publication of a new implementation guideline for a particular investment class.

## Accountability

PGGM reports quarterly and annually on ESG integration in its investment processes. It reports quarterly to its clients on relevant developments. It also has a publicly accessible website on which it publishes its Annual Responsible Investment Report detailing the progress of ESG integration and the development of new initiatives.

# Implementation Guideline on Active Equity Ownership

## Introduction

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) conducts active equity ownership for investments in listed companies. It forms part of the PGGM Responsible Investment Implementation Framework. This framework specifies how the various responsible investment activities are conducted for the PGGM funds. The Implementation Framework and the implementation guidelines also apply – where relevant – to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

## Definition

PGGM is a universal investor which invests in a cross-section of globally available investments. The risk and return of the investments are highly dependent on efficient markets, economies, sectors and companies. Efficient markets are therefore immensely important to PGGM and its clients.

PGGM sees shareholders as co-owners of the listed companies in which they invest. Such ownership entails rights and responsibilities. Through its active equity ownership activities, such as voting, engagement and litigation, PGGM fulfils the rights and responsibilities associated with listed equity ownership.

Good corporate governance is necessary in order to exercise our rights and responsibilities. We define good corporate governance as an appropriate and coherent system of checks and balances in the relationships between the executive board, the supervisory board and shareholders with a set of standards governing conduct, the exercise of powers and the associated accountability.

## Objective

PGGM actively uses its influence as a shareholder to achieve improvements in the ESG field, thereby contributing to the quality, sustainability and continuity of

companies and markets. PGGM does so in the belief that this ultimately contributes to a better social and/or financial return on investments for our clients.

Equity ownership is not without obligations, since institutional investors worldwide increasingly have to meet minimum requirements. 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.

## Implementation

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 United Nations Global Compact
- the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD).

Good corporate governance enables us to promote social and environmental objectives as an active shareholder in the companies in which we invest on behalf of our clients. PGGM therefore works to advance corporate governance standards in the developed and emerging markets in which it invests. We assume our responsibility particularly in our home market of the Netherlands.

In this context PGGM endorses the internationally recognised and accepted basic principles for good corporate governance. PGGM applies, inter alia, the OECD's six basic principles of corporate governance (2004) and the 'Statement on Global Corporate Governance Principles: Revised' of the International Corporate Governance Network (ICGN, 2009) and incorporates these in its activities.

The precise way in which PGGM fulfils active equity ownership is detailed in the implementation guidelines on:

- Voting
- Engagement
- Shareholder litigation.

### Conflict of interest

PGGM is convinced that in exercising shareholders rights and responsibilities there is only a limit risk for a material conflict of interests. When exercising shareholders rights and responsibilities, for example proxy voting, the interests of clients as (the ultimate) shareholder/beneficiary of the (listed) companies we invest in are paramount for PGGM. The RI department guards this and is ultimately responsible for the execution of these shareholder rights and responsibilities. The RI department is in the position to execute this without an order from or consultation with our clients and/or others.

## Accountability

PGGM reports quarterly and annually on activities in the field of active equity ownership. It reports quarterly to its clients on relevant developments. It also has a publicly accessible website on which it publishes its Annual Responsible Investment Report. These reports provide as much information as possible on the results achieved, having regard to the confidential nature of our many of activities.

We report in accordance with Dutch law. PGGM and its clients have a legal obligation to report on compliance with these principles and best practice provisions under the Dutch Corporate Governance Code, in accordance with the 'comply or explain' rule. The statement on the degree of compliance is published in the annual report and on the PGGM website.

# Implementation Guideline on Voting

## Introduction

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) conducts the voting activity in the framework of active equity ownership. It forms part of the PGGM Responsible Investment Implementation Framework. This framework specifies how the various responsible investment activities are conducted for the PGGM funds. The Implementation Framework and the implementation guidelines also apply – where relevant – to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

## Definition

The right to vote at shareholder meetings of listed companies is one of the most important rights a shareholder has. Voting is an important means of influencing the way in which a company is managed.

A high attendance at shareholder meetings (through physical presence or proxy voting) brings stability in decision-making and prevents small groups of shareholders from taking control of the meeting due to the absence of other shareholders.

Exercising voting rights is no longer without obligations, particularly in the Dutch context. The Dutch Corporate Governance Code, for example, specifies that institutional investors must publish their voting policy and report on the casting of their votes.

## Objective

As an asset manager, PGGM acts as a representative of its clients. Our objective is to cast well-informed votes on behalf of our clients at all shareholder meetings. We believe well-informed voting is crucial for active equity ownership and are convinced that this contributes to the creation of shareholder value in both the short and long term.

In PGGM's case this means that ideally we will vote at every shareholder meeting and on all agenda items relating to every company in which we invest. This requires us to understand the relevant issues in a particular company, so that as an active shareholder we can vote in line with our Beliefs and Foundations for Responsible Investment.

The voting must also be practicable. To this end, tailor-made voting guidelines (the 'PGGM Investments Global Voting Guidelines') have been formulated. These are updated and published annually.

## Implementation

PGGM casts votes by:

- attendance at shareholder meetings (particularly in the Netherlands)
- issuing proxies to other shareholders who speak additionally on behalf of PGGM (in the Netherlands and other countries)
- proxy voting.

In view of the Dutch origins of PGGM and its clients, particular attention is devoted to attendance at meetings of holders of shares and depositary receipts of Dutch companies.

## Voting Focus List

PGGM uses a Voting Focus List. We devote particular attention to meetings of companies on this list. At shareholder meetings of companies on the voting focus list we vote in respect of the entire position on the basis of our own judgement, even in the case of a company in a blocking market (where voting blocks any trading in the shares).

The Voting Focus List comprises companies which:

- are listed on the Dutch stock market or have a clear Dutch background, or
- are among the largest listed holdings (>3% of voting rights), or
- make up one of the ten largest holdings in euros, or
- form part of a selection of companies in fundamentally managed portfolios within PGGM, or
- form part of a selection of companies on the engagement focus list.

## Voting process

Obtaining the necessary information to vote in a well-considered way, the associated costs, time or other practical limitations may mean that PGGM cannot reasonably fulfil its ambition of voting at all shareholder meetings.

In addition, the percentage of shares on which we can vote is influenced partly by any lending of shares. However, positions are never lent in full. In practice, except in blocking markets, we will vote on at least 10% of the shares of all investee companies. It should be noted in this regard that at all times PGGM can and will recall shares for voting purposes if it sees fit.

PGGM uses specialist proxy advisory services when implementing its voting policy. PGGM receives voting advice based on its own voting guidelines. Shareholder resolutions relating to the environment, social factors and corporate governance are assessed in detail and voted on by internal specialists in various specialist areas. Internal or external portfolio managers are also involved where possible in the implementation of the voting policy. PGGM can also call on the regular voting advice of these proxy advisory services.

PGGM is also associated with various formal and informal groupings of institutional investors with a view to casting well-considered votes at shareholder meetings.

## Submission of shareholder resolutions

In addition to the right to vote, shareholders in many countries also have the right to submit shareholder resolutions. These enable shareholders to draw attention to subjects and request other investors to express an opinion by voting at a shareholder meeting. Depending on the binding force of the resolution, this may lead to an obligation upon the company to implement the resolution.

PGGM takes a restrained approach to the submission of shareholder resolutions and in principle does not do so without prior dialogue with the company. However, if it is necessary to submit a shareholder resolution to achieve its purposes, or to alter the course of a company, PGGM makes use of its rights as a shareholder.

## Voting in relation to engagement

A voting instruction can be a reason to enter into a dialogue with a company. An engagement project can also be a trigger for issuing a particular voting instruction. In addition to voting, PGGM also aims to bring about a further improvement in the operation of the voting chain. Among other things, we endeavour, for example through market engagement, to simplify the voting process, increase transparency in the chain and improve the auditability of the voting chain.

## Accountability

PGGM reports quarterly and annually on its voting. It reports quarterly to its clients on relevant developments. It also has a publicly accessible website on which it publishes its Annual Responsible Investment Report.

The Annual Report gives a detailed account of the voting on the basis of practical examples, trends and themes. The website also provides a quarterly, quantitative overview of the voting. In addition, PGGM has a publicly accessible website on which all its voting instructions can be viewed. The annually specified voting guidelines can also be found on the PGGM website.

# Implementation Guideline on Engagement

## Introduction

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) conducts engagement within the framework of active equity ownership. It forms part of the PGGM Responsible Investment Implementation Framework. This framework specifies how the various responsible investment activities are conducted for the PGGM funds. The Implementation Framework and the implementation guidelines also apply – where relevant – to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

## Definition

PGGM defines engagement as the activities undertaken in order to bring about change in the environmental, social and corporate governance (ESG) field through dialogue with companies and markets. We strive for a constructive dialogue with the companies in which we invest on behalf of our clients and with market participants, such as regulators, supervisors and sector organisations.

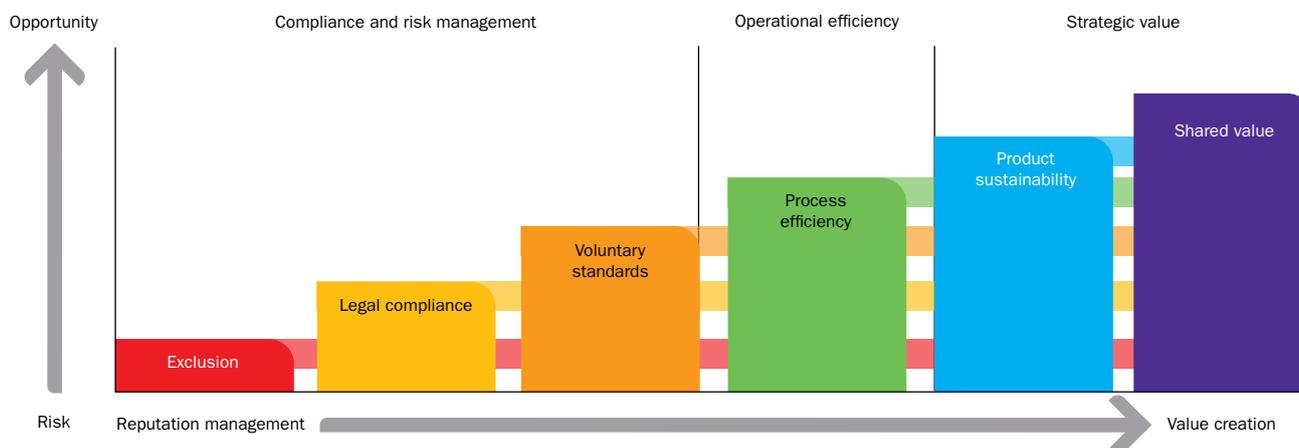
## Objective

Conducting a dialogue on ESG subjects is one of the means by which PGGM fulfils its responsibilities as an active shareholder on behalf of its clients. PGGM actively uses its influence to achieve improvements in the ESG field, thereby contributing to the quality, sustainability and continuity of companies and markets. PGGM does so in the belief that this ultimately contributes to a better social and/or financial return on investments for our clients.

Our engagement activities are intended to deliver a demonstrable change, for example in the behaviour and/or activities of a company or party with which dialogue is conducted. If companies are unwilling to enter sufficiently into a meaningful dialogue with PGGM or do not adjust their behaviour and/or activities in the desired direction, PGGM can opt to discontinue investments in these companies in the event of serious abuse, for example in the field of human rights, environmental pollution or corruption. Exclusion is expressly seen as a last resort (for further information see the Implementation Guideline on Exclusion).

The illustration below shows the type of changes we aim to bring about through engagement. It can be seen that engagement is focused not only on controlling reputation and other risks and implementing best practice, but also on opportunities for creating financial and social added value.

## Sustainability stairway



## Implementation

In line with the ambition set out in the Beliefs and Foundations, PGGM strives for sustainable development and therefore seeks to contribute to:

- A viable and resilient ecological system, based on the preservation of natural capital
- A society in which economic development is not at the expense of vulnerable groups or future generations
- Good corporate governance and efficient financial and other markets.

In order to achieve this in a targeted way, PGGM has specified a number of focus areas in consultation with its clients. Where appropriate, PGGM also aims to make a positive contribution to these focus areas through engagement:

- Climate change and reduction of pollution and emissions
- Water scarcity
- Health(care)
- Food security
- A stable financial system which serves the real economy
- Good corporate governance
- Safeguarding human rights.

On the basis of a firm belief that we can achieve more by having a clear focus, PGGM defines a number of specific focus areas for its engagement activities within these areas, in all cases for a specified period. PGGM applies the following criteria in the selection of these focus areas:

- their relevance to our clients and their beneficiaries
- the role which PGGM can play as an investor
- the influence which PGGM can exert
- the expected contribution to long-term value creation.

Specific engagement projects are defined on the basis of these focus points. Each engagement project has its own objectives and timelines. Although they are sometimes short-term, engagement projects generally continue for several years.

The engagement activities undertaken to fulfil these projects can be divided into two main categories:

- Engagement focused on companies which we encourage to make improvements in one or more ESG areas. We focus particularly on companies in which the changes we are able to bring about can serve as examples for other companies in the respective region, sector or chain.
- Engagement focused on market participants, such as regulators, supervisors and sector organisations, in which we exert influence on relevant legislation and regulations or on the development and/or implementation of voluntary ESG standards.

In many engagement activities co-operation with other institutional investors is desirable, if not necessary. Co-operation can also take place with other parties such as social organisations, academics and businesses. Co-operation can enable more to be achieved, through increased scale, expertise and capacity. PGGM participates on a deliberate but selective basis in ad hoc coalitions, permanent coalitions, existing platforms and alliances.

Engagement activities can also be conducted on behalf of PGGM and its clients by a provider of engagement services.

## Accountability

PGGM reports quarterly and annually on its engagement activities. It reports quarterly to its clients on relevant developments. It also has a publicly accessible website on which it publishes its Annual Responsible Investment Report.

In its Annual Report PGGM explains its choice of focus areas for its engagement activities. It also reports on the progress of current engagement projects and the results they have achieved. In some cases we adopt a restrained approach in our external communication on engagement, if that is in the interests of the dialogue. PGGM practises openness where possible.

The website also provides a quarterly, quantitative overview of the engagement activities, including a list of the companies with which a dialogue has been maintained.

# Implementation Guideline on Shareholder Litigation

## Introduction

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) conducts shareholder litigation. It forms part of the PGGM Responsible Investment Implementation Framework. This guideline specifies how the various responsible investment activities are conducted for the PGGM funds. The Implementation Framework and the implementation guidelines also apply – where relevant – to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

## Definition

PGGM defines shareholder litigation in this context as the conduct of legal proceedings as a shareholder in listed and unlisted companies in which PGGM invests on behalf of its clients, which qualify on the basis of one or more of the objectives below.

## Objectives

PGGM has the following objectives for the conduct of litigation:

- *Financial proceeds to limit damages:* Recovering for and on behalf of PGGM's clients investment losses resulting from fraud, corruption, embezzlement or other forms of misconduct by listed companies.
- *Contribution to the risk-return profile:* Where possible, improving the corporate governance of the company concerned in order to remain invested as a shareholder with a long-term outlook.
- *Prevention:* Setting standards to prevent undesirable behaviour (fraud, corruption, deception etc.).

## Implementation

### Monitoring

PGGM adopts a proactive approach by arranging investigations into the legal merits of events which have caused damage to clients through misconduct by listed

companies and obtaining ensuing compensation. PGGM has established internal systems to monitor the possible conduct of proceedings worldwide in the interests of its clients. PGGM investigates those possibilities and provides its clients with reasoned advice on whether, and if so how, to take part in such proceedings.

PGGM obtains information to monitor cases of relevance to shareholder litigation through its service provider, from its own network of institutional investors, external law firms and its own research, based partly on public sources.

### Advice

PGGM takes account of the following factors, among others, in its research into possible litigation:

- Does the case meet one or more of the objectives of active equity ownership requiring an active role?
- What is the extent of the losses/damage suffered?
- Feasibility: how likely is the case to succeed?
- What is the expected financial and – if possible – corporate governance benefit?
- What are the risks associated with the proceedings: a) legal, b) financial, c) procedural, d) reputation and e) image?
- Does the country in which the proceedings are conducted have a 'class action regime' or is there some other favourable legal climate for deceived investors?
- Is there scope for co-operation with other investors, and if so, how is that co-operation arranged?
- Does PGGM wish to assume a leading, strategic role in proceedings, or can PGGM confine itself to participating in a case in which other investors take on that role?
- What efforts can be expected on the part of PGGM (witness hearings, disclosure of files with underlying documentation etc.)?
- What are the financing arrangements?
- What is the expected completion time for the proceedings?
- Does the pursuit of the case contribute to thought leadership among PGGM's clients and/or does it set a trend or standard with regard to the type of conduct we wish to see or the prevention of undesirable conduct?
- Other relevant developments.

## Decision-making

PGGM believes it is crucial that an informed decision can be taken on whether or not to participate in possible proceedings. It is therefore important, partly in the light of our clients' fiduciary obligations, to identify proper grounds and justify certain decisions on whether or not to litigate.

PGGM seeks to take account of all factors as far as possible in the advice it provides for its clients. Where possible, PGGM applies the following preferences:

- High estimate of legal feasibility (litigation probability  $\geq 50$ ), unless the case serves to test the principles and no substantial reputation risk is expected
- Financing based solely on 'no cure no pay' models in which the financing risk for PGGM and its clients remains limited to the time expended, with no out-of-pocket expenses being borne, even in the event of an order to pay costs if the case is lost
- Litigation in tried and tested jurisdictions having a form of class action regime
- Co-operation with other major – like-minded – institutional investors who also pursue objectives other than the limitation of financial losses (social prospects)
- Only cases in which there is an appropriate decision and control model enabling PGGM to direct and assert its interests sufficiently in the outcome of the case, for example by establishing claim vehicles in which PGGM has a seat on the board
- If and to the extent that the research phase leads to a positive recommendation to litigate in a particular case, the proposal is handled in accordance with the decision-making process below.

## Passive shareholder litigation

A clear distinction must be drawn between what we term 'active' and 'passive' shareholder litigation. By passive shareholder litigation we mean conducting an appropriate administrative process to collect full or proportionate financial damages accruing to PGGM's clients from settlements in group actions and/or administrative penalties imposed by regulatory bodies. This 'proof of claim' process is largely administrative and has been outsourced to an external service provider.

## Engagement in relation to shareholder litigation

In the framework of shareholder litigation PGGM also undertakes activities in the field of market engagement. In both the US and Europe, efforts are made in dialogue with legislators and regulators to ensure appropriate legal protection for investors in those jurisdictions in which damage is suffered through the actions of PGGM's listed investee companies. The main aim of these engagement activities is to guarantee and secure adequate access to the courts by establishing effective and efficient systems of individual or group actions for investors.

## Accountability

PGGM reports quarterly and annually on its shareholder litigation activities. It reports quarterly to its clients on relevant developments. It also has a publicly accessible website on which it publishes its Annual Responsible Investment Report.

These reports include details of the proceeds of active and passive legal proceedings and relevant developments in current and/or notable cases.

# Implementation Guideline on Exclusions

## Introduction

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) handles exclusions of investments. It forms part of the PGGM Responsible Investment Implementation Framework. This framework specifies how the various responsible investment activities are conducted for the PGGM funds. The Implementation Framework and the implementation guidelines also apply to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

## Definition

Exclusion by PGGM comprises two elements:

1. *Exclusion after engagement*: This involves a critical assessment of the behaviour and activities of the entities in which investments are made on behalf of clients, the pursuit of change if such behaviour or activities undermine a sustainable world and the termination of an investment if that change fails to materialise.
2. *Immediate exclusion*: This concerns the exclusion of entities involved in the production of or trading in products which are inconsistent with the identity of PGGM and its clients.

Both elements lead to specific exclusion criteria and lists of excluded entities.

## Objective

By excluding companies on the basis of the above elements, PGGM seeks to prevent PGGM-managed investments contributing financially to practices incompatible with the standards and values of PGGM, its clients and their beneficiaries.

The PGGM Beliefs and Foundations for Responsible Investment specify a strict minimum standard in this regard.

## Implementation

This exclusion guideline applies to all PGGM funds and public and private segregated mandates managed by PGGM for individual clients. In the advice PGGM gives to clients on direct investment in external funds or mandates, PGGM also takes these exclusions into account. The actual implementation by a client may differ – within the framework of what PGGM considers to be an appropriate client – from PGGM's own implementation.

### Exclusions resulting from the PGGM Beliefs and Foundations

#### 1. *Exclusion after engagement*

PGGM acts as an active owner on behalf of its clients. We do so under the Exclusion Guideline by seeking in the first instance to secure a change of behaviour if the behaviour or activities of investee entities undermines a sustainable, viable world. In principle PGGM does not exclude investments immediately, but will first try to encourage entities to change their behaviour by means of engagement. It will only dispose of the investments if it fails to bring about any change. Exclusion is expressly seen as a last resort in such cases.

PGGM bases its criteria for assessing abuse on the principles of the UN Global Compact relating to human rights, employment rights, the environment and corruption. When assessing the seriousness of the abuse, PGGM Investments considers the scale and duration of the consequences for humankind and/or the environment.

If a case of abuse is considered to be serious and insufficient measures are taken to remedy the situation, PGGM will initiate a targeted engagement programme with concrete timelines, decision times and objectives with the aim of remedying the abuse and preventing it in the future.

If a company is unwilling to enter sufficiently into a meaningful dialogue with PGGM or fails to adjust its behaviour and/or activities in the required direction, PGGM can opt to discontinue investments in that company.

Clients may, on the basis of this information, decide to also add this company to their exclusion list. Subsequently, this could be discussed in the participants' meeting and an advice to implement this in the PGGM funds could be the outcome. In such a case the PGGM Investment Committee may decide in the end to exclude the company. If necessary, it can obtain advice from the Advisory Board Responsible Investment.

## 2. Immediate exclusion

However, pressure and dialogue will not be possible or the most appropriate instrument in all cases, for example if an investee entity is involved in the production of or trading in products which are incompatible with the identity of PGGM and its clients. PGGM will then carry out 'immediate exclusion', without first seeking to bring about a change in the companies concerned. This applies to the following categories:

### **Controversial weapons**

PGGM excludes companies from investment if they are involved in the production of and/or trading in weapons whose use leads to a violation of fundamental human rights. PGGM focuses in this regard on controversial weapons. These are weapons whose large-scale use causes actual or potential suffering and which are aimed at civilians or result particularly in civilian casualties. Proportionality plays an important role; the military advantage must be weighed against the possible humanitarian consequences and the nature of the intended purpose of the deployment of such a weapon. An important factor is whether the weapon primarily causes military damage and/or casualties or primarily affects the civilian population.

PGGM excludes companies from investments if they are involved in the production of and/or trading in six types of weapons in the following categories:

1. Weapons of mass destruction:
  - a) nuclear weapons
  - b) chemical weapons
  - c) biological weapons.
2. Weapons with a considerable risk of casualties (including among civilians) during and/or after military conflict
  - a) anti-personnel mines
  - b) cluster bombs
  - c) munitions with depleted uranium.

Involvement is defined as production or supply of one or more types of the above weapons as the end-product, or supply of essential and/or custom-made semi-manufactures for one or more of the above weapon types. Companies are also excluded if they provide services for the maintenance and development of nuclear weapons.

Finally, companies are excluded if they have a de facto or practical controlling interest in a subsidiary or joint venture which is substantially involved in the production of or trading in these weapons. Details of the weapon types and the engagement practised for each type are provided in the appendix.

### **Government bonds**

The particular characteristic of government bonds is that the issuers are sovereign. This makes it almost impossible in the first instance to seek to bring about a change of behaviour. Government bonds of the selected countries are therefore excluded immediately.

PGGM does not invest in bonds (including inflation-linked government bonds and other debt securities – without a predefined purpose – of central government and local authorities) issued by states on which sanctions have been imposed by the UN Security Council and/or the European Union, if these are targeted at the country itself or the incumbent government and concern a weapons embargo or relate to a situation of gross and systematic violation of human rights, or if there is possible deployment of controversial weapons.

### **Additional exclusions at the request of clients**

If clients wish to apply a stricter minimum standard for their investments, translated into an own exclusionlist, PGGM will facilitate its implementation.

If the participants in the PGGM funds jointly agree 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.

## Application of the exclusions

This guideline is implemented by PGGM. The application method differs in each investment category and depends on the practical possibilities, for example on whether or not it is legally enforceable and can be implemented at reasonable cost. We always seek the most effective application method. To this end we distinguish two approaches:

- a. PGGM translates the criteria into lists of excluded listed or unlisted companies and government bonds which are applied by portfolio managers. This primarily concerns public investment categories.

Research is conducted at least once a year into violations of our exclusion criteria by companies. Multiple sources are used to investigate companies: non-government organisations (NGOs), specialist data suppliers, media and the companies themselves. Research by our data suppliers yields a list of companies which meet the exclusion criteria according to these agencies and the applied methodology. PGGM itself carries out additional investigations into the companies on this list, partly by requesting feedback from the company concerned. This additional research provides the names of the candidates for the Exclusions List. It is then determined whether engagement with these candidates could lead to concrete results or would be worthwhile, or whether immediate exclusion should take place. The list of possible candidates for exclusion will be presented to the clients if requested. Clients can then draft their own exclusion list and advice, through the participants meeting to adjust the PGGM exclusion list for the PGGM funds accordingly. Decisions on exclusion are taken by the Investment Committee. If necessary, advice can be obtained from the Advisory Board Responsible Investment.

- b. Formal application of the criteria by portfolio managers in investment decisions. In the case of external managers implementing funds managed by PGGM and segregated mandates, the aim is to lay down the requirements in a contract. This primarily concerns private investment categories.

There is often little information available in the public domain on investable entities in these categories. Moreover, it is not always clear in advance which private companies or entities will be invested in over the duration of the mandate. Portfolio managers often have access to the best information. The most effective way to apply the exclusion policy in these categories is therefore to have the criteria applied by the portfolio managers and to make them responsible for preventing us investing in organisations which breach the criteria. This means entering into formal agreements with the external or internal manager and monitoring their correct application.

## Accountability

PGGM reports quarterly and annually on its exclusions.

It reports quarterly to its clients on relevant developments. It also has a publicly accessible website on which it publishes its Annual Responsible Investment Report. PGGM also publishes the exclusion lists on its website.

## Appendix: Explanatory note on controversial weapons

A *nuclear weapon* is any device which can discharge nuclear energy in an uncontrolled way and which has a number of characteristics making it suitable for use as a weapon. Companies are involved when their activities include the production, development and sale of adapted high-grade components of the nuclear warhead, the rocket or the entire weapon and the maintenance and improvement of the weapon. It is defined in line with the UN Treaty for the Prohibition of Nuclear Weapons in Latin America and the Caribbean. The 1968 worldwide Treaty on the Non-Proliferation of Nuclear Weapons (NPT) contains no clear definition.

*Chemical weapons* are chemicals with characteristics intended to cause death or other harm through toxic characteristics and munitions designed to enable these chemicals to be used as weapons. They are defined in line with the UN Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction.

*Biological weapons* are microbiological or biological materials in quantities not justified by peaceful use and munitions designed to enable these materials to be used as weapons. They are defined in line with the UN Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction.

*Anti-personnel mines* are designed to explode as a result of proximity or contact with a person, with the aim of causing him or her death or injury. Such mines usually remain long after the end of a military conflict and consequently cause civilian casualties. Companies are involved when their activities include the production, development and sale of the end-product and of ignition mechanisms developed specially for these weapons. They are defined in line with the Ottawa Convention/UN Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction.

A cluster munition is a conventional munition designed to disperse or release explosive submunitions, each weighing less than 20 kg. The submunition itself is part of the cluster munition. Companies are involved when their activities include the production, development and sale of the end product, but also of submunitions, specially adapted containers for such submunitions and ignition mechanisms specially developed for these weapons. It is defined in line with the Convention on Cluster Munitions: [www.clusterconvention.org](http://www.clusterconvention.org). Since 2013 the Netherlands has prohibited investment in cluster bombs.

The investment ban applies to companies which produce, sell or distribute cluster munitions or crucial parts of such munitions. A financial company established in the Netherlands is not permitted to effect any transactions in, grant loans to or acquire non-freely negotiable interests in such companies.

*Depleted uranium* is used to make projectiles capable of penetrating armour, for example. The radioactive load remains active in an area long after the end of a military conflict and leads to civilian casualties, sometimes insidiously. Companies are involved when their activities include the production, development and sale of the end-product and of depleted uranium intended for use in munitions.

# Implementation Guideline on Investing in Solutions for Sustainable Development

## Introduction

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) invests in Solutions for Sustainable Development. It forms part of the PGGM Responsible Investment Implementation Framework. This framework specifies how the various responsible investment activities are conducted for the PGGM funds. The Implementation Framework and the implementation guidelines also apply – where relevant – to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

## Definition

When Investing in Solutions for Sustainable Development, PGGM seeks out investments for its clients which not only contribute financially to the return of the portfolio, but through which PGGM also intends to contribute to help solve socioeconomic or environmental issues. These are clearly defined investments in which the mandate or investment fulfils this definition. This is gauged in terms of the impact of the entire value chain of the underlying investment. ESG improvements in the processes may be part of the aim (e.g. by means of engagement), but they alone are not sufficient for an investment to qualify as a contribution to a sustainable development solution.

## Objective

These investments are aimed at making a positive contribution to the solution of important sustainability issues. The transition to a circular economy is expressly seen as one of the intended solutions. These investments thereby fulfil our clients' desire to contribute to a more sustainable world while generating a financial return. Examples are investments in clean technology, sustainable energy and investments contributing to food security. PGGM will measure and monitor the expected and actual social added value of these investments.

## Implementation

PGGM actively seeks opportunities to invest in Solutions for Sustainable Development on behalf of its clients. To this end we engage in the public debate, discuss matters with external managers of impact funds and products and develop new investment products (jointly with external parties) focused on creating social impact.

At the inception of such an investment, it is determined which sustainability issue is being addressed, how material the contribution to the solution is and in what way the investment achieves it. On this basis PGGM draws up impact indicators. Where applicable these are co-ordinated with internal and external managers and co-operation takes place in order to report on this impact in subsequent years.

After the first year of investment, PGGM periodically draws up an impact fact sheet which is used to measure and monitor the intended impact. PGGM can thereby ascertain whether the investment actually contributes to the solution of the sustainability issue in question. If it does not, PGGM can as far as possible adjust its course or dispose of the investment.

## Accountability

PGGM reports quarterly and annually on its investments in sustainable development solutions. It reports quarterly on the financial presentations of these investments to its clients. It reports to clients annually on the sustainability performances of these investments. PGGM also has a publicly accessible website on which it publishes its Annual Responsible Investment Report. The report provides details of the social added value generated by these investments.

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