pggm.nl

PGGM Responsible Investment in Infrastructure

Revised August, 2014

Adopted by PGGM Vermogensbeheer BV

PGGM

PGGM Responsible Investment in Infrastructure

1. Introduction

On behalf of its clients, PGGM Investments (PGGM) manages infrastructure investments. PGGM recognizes the impact infrastructure investments may have on the environment and society and vice versa. This guideline addresses PGGM's management of environmental, social and governance (ESG) issues with regard to the infrastructure investments. The guideline is part of PGGM Investments's Responsible Investment Policy Framework. 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 and are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment. The Implementation Guideline on Exclusions is applicable to the infrastructure investments.

The rationale for a separate responsible investment guideline for infrastructure is that these investments are well suited to manage ESG opportunities and risks. The guideline makes a distinction between direct investments and fund investments. In direct assets PGGM infrastructure can exert some influence on how ESG risks and opportunities are managed; as a Limited Partner (LP) in funds this influence is limited during the holding period. Agreeing ESG investment standards prior to commitment/ investment is therefore important. This warrants the need for a guideline and due diligence procedures on ESG issues within the Infrastructure investments

This guideline covers all infrastructure investments that PGGM manages on behalf of its clients. The PGGM Responsible Investment in Infrastructure will be effective as of the 1st of November 2012 and the implementation of the guideline will start after that date.

It should be noted that the implementation of this guideline differs between investments before and after the effective date. For the former, we will use our influence to engage with executive management, general partners (GPs) and LPs while respecting existing contracts. PGGM tracks relevant developments closely and will update the guideline when necessary.
This guideline does not confer any rights to any third parties. We will report periodically on the progress made in implementing this guideline.

2. Vision on ESG in infrastructure

Material ESG factors in infrastructure

PGGM believes that ESG factors can have a material impact on the financial performance of the infrastructure investments. PGGM sees it as its responsibility to capture the value and mitigate the material risks related to ESG factors. PGGM defines 'material ESG factors' as factors which have a significant financial impact on the underlying investment. PGGM Infrastructure invests in a diverse range of assets including toll roads, renewable energy and social infrastructure (except those sectors/products listed in the PGGM Implementation Guideline on Exclusions), which means ESG risks and opportunities need to be assessed on an individual asset basis and cannot be generalized. Reputational risks for PGGM, our clients and infrastructure assets resulting from ESG factors should also be considered. ESG factors include, for example, but are not limited to:

Environment	Social	Governance
A stable **climate** • By reducing greenhouse gas emissions	Respect for **human rights** (incl. labour rights) and empowerment • Eg, no child labour, freedom of association	Adequate **shareholder rights** • Eg, annual shareholders' meeting, nomination directors
A responsible use of scarce **natural resources** • Eg, efficient water use, conservation of biodiversity	Adequate access to **basic needs** • Eg, health care, nutrition	Effective **board structure** and proper risk management • Eg, two/one tier, independent directors, strategy, composition, remuneration, risk management
A clean and **healthy environment** • Eg, reducing waste and pollution, recycling	Local socio-economic **development** • Eg, creating local employment, transfering knowledge	**Accountability** • Eg, disclosure, culture & practice, anti-corruption and bribery

Figure 1. Sustainability 3×3 (source: PGGM)

3. Objective

The objective of PGGM's Responsible Investment in Infrastructure is to ensure that PGGM and the infrastructure managers structurally and systematically take material environmental and social issues into account in their activities. PGGM's Sustainability Stairway (figure 2.) illustrates how ESG can evolve within a company and sets forth the expectations PGGM has with regard to ESG performance of infrastructure investments.

Objectives a, b and c are minimum requirements.

Infrastructure assets, in which PGGM is directly or indirectly invested:

a. will have to comply with the PGGM Implementation Guideline on Exclusions
b. will have to comply with all applicable environmental and social (such as health, safety, labor) law and regulation. (Legal compliance)
c. will have to, where relevant, assess material environmental and social risks of their operations and implement or work over time towards implementing relevant international best practice standards in their company/asset management to mitigate environmental and social risks with targets and timelines for improvement. This can mean that PGGM may invest in infrastructure assets with weak ESG practices as long as ESG shortcomings are addressed and resolved during the investment period. International best practice include among others the IFC Performance Standards. (Voluntary standards)
d. are expected, where appropriate, to work over time to realize potential value through improving ESG performance and operational efficiency, such as eco-efficiencies. (Process efficiency)

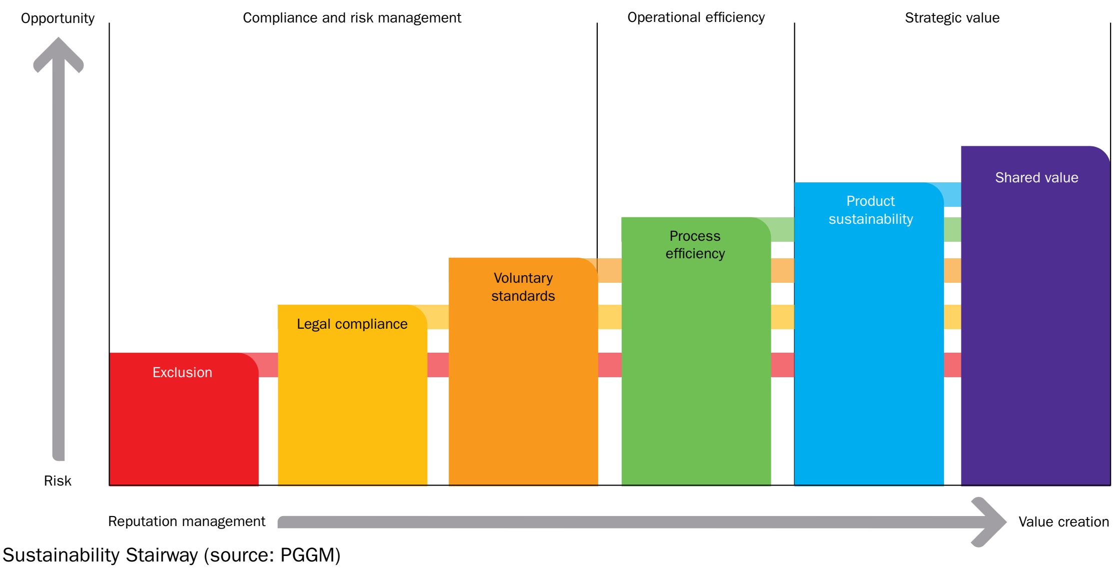

Figure 2. Sustainability Stairway (source: PGGM)

PGGM will, where possible, and encourages the executive management of its assets and infrastructure funds to:

e. identify opportunities for investing in infrastructure assets that can positively contribute to solving societal challenges, such as climate change, loss of biodiversity and social inequity. (Product sustainability)
f. ensure that the invested assets create financial returns which at the same time create societal benefits. (Shared value)[1]

PGGM may also search for opportunities within the objectives 'product sustainability' and 'shared value' by establishing separate infrastructure mandates or targets with the intent to create social added value. An example is PGGM Infrastructure's allocation to renewable energy infrastructure. Within PGGM, such investments are labeled 'Targeted ESG investments' and are reported yearly on in the PGGM Responsible Investment Report.

4. Implementation

It is PGGM's strategy to (i) structurally integrate material ESG factors in our investment processes, (ii) realize strong governance of our investments, and (iii) strive for better ESG performance by the infrastructure assets that are part of the infrastructure investments. This means, among other things, that we integrate ESG factors into our decision-making process before selecting an investment, monitor and engage with infrastructure funds and assets with the aim of improving the ESG performance of the assets and set minimum ESG requirements for our investments. All Infrastructure investment managers at PGGM will be made aware of this guideline and given appropriate training to ensure that the investment managers have all the necessary skills to implement this guideline in their investment decisions.

The funds and assets we commit to and invest in are primarily responsible for the management of these ESG issues. Hence, we will actively explain our ESG requirements to (lead) managers and determine whether they are conscious of ESG factors, and manage ESG issues within their business activities in line with PGGM's guideline. We will encourage executive management of assets and funds to improve the ESG performance of their assets and to report on improvements. When choosing between comparable investments, we select the investment with the better ESG practices and performance.

4.1 Application to direct investments

Selection and investment

For the selection of direct investments, PGGM will:

- require application of the objectives as set forth in paragraph '3. Objective';
- perform an assessment of ESG risks and opportunities and rate these on a scale of high, medium and low (see Table 1.);
- assess an infrastructure company's existing ESG policies, management system and reporting in relation to the level of ESG risk the asset faces;
- benchmark performance on and management of ESG issues against relevant international best
- practice (as stated in objective C depending on sector and geography), to determine any ESG shortcomings and the level of monitoring and engagement required; where shortcomings have been identified, agree on an ESG action plan with targets and timelines with the infrastructure company.

Risk categorization

Risk category	Description
High	Activities with potential significant adverse environmental or social impacts which are diverse, irreversible or unprecedented, or with significant risks for business integrity/governance issues.
Medium	Activities with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures, or with risks for business integrity/governance issues that are of concern.
Low	Activities with minimal or no adverse environmental or social impacts, e.g. professional service companies, education or health projects with no construction, technical assistance, institutional development, human resource projects, or with low risks for business integrity/governance issues.

Table 1. Risk categorization

1. The principle of shared value involves creating economic value in a way that also creates value for society by addressing its needs and challenges.

Monitoring and engagement

For monitoring and engagement of direct investments, PGGM will

- on a structural basis, monitor the assets we invest in and periodically discuss with the management of these assets their ESG performance and progress made in the agreed action plans;
- require reporting on ESG factors as part of the reporting requirements and part of the periodic review meetings;
- require timely monitoring and reporting of ESG incidents and the remediating actions taken in this regard.

4.2 Application to fund investments

Selection and investment

For the selection of funds, PGGM will:

- assess if a Fund is able to invest in line with the objectives as set forth in paragraph '3. Objective'; assess if a Fund structurally integrates ESG factors in all its investment decisions to identify ESG risks and opportunities and has an ESG management system in place;
- assess a Fund's engagement with portfolio companies and processes to remediate identified ESG shortcomings;
- assess a Fund's periodic and incident reporting on ESG issues to investors;
- rate an infrastructure fund's ESG risks on a scale of high, medium, or low risk.

The level of detail and sophistication that PGGM requires of a Fund's ESG integration approach and management system will depend on the ESG risk profile of the fund. PGGM considers infrastructure funds that expect to have or have >15% of their portfolio companies in high risk sectors (according to the risk categorization for co-investments) as high risk infrastructure funds.

PGGM does not exclude a fund if it does not meet all requirements during the due diligence process (except if the Fund is not able to accommodate our PGGM Implementation Guideline on Exclusions). If the Fund has at least a clear vision regarding material ESG issues and has the willingness and capacity to implement the necessary steps for further improvement early in the life of the fund, PGGM will still consider investing.

Monitoring and engagement

For monitoring and engagement of funds, PGGM will: on a structural basis, monitor the funds we invest in and periodically meet with the management of these funds; make ESG part of the reporting requirements for the Funds and part of the periodic review meetings; require timely monitoring and reporting of ESG incidents and the remediating actions that the Fund has taken in this regard.

Fund governance

For fund investments, PGGM reviews among others the alignment of interest, the governance model and management framework, and the transparency of the fund and GP.

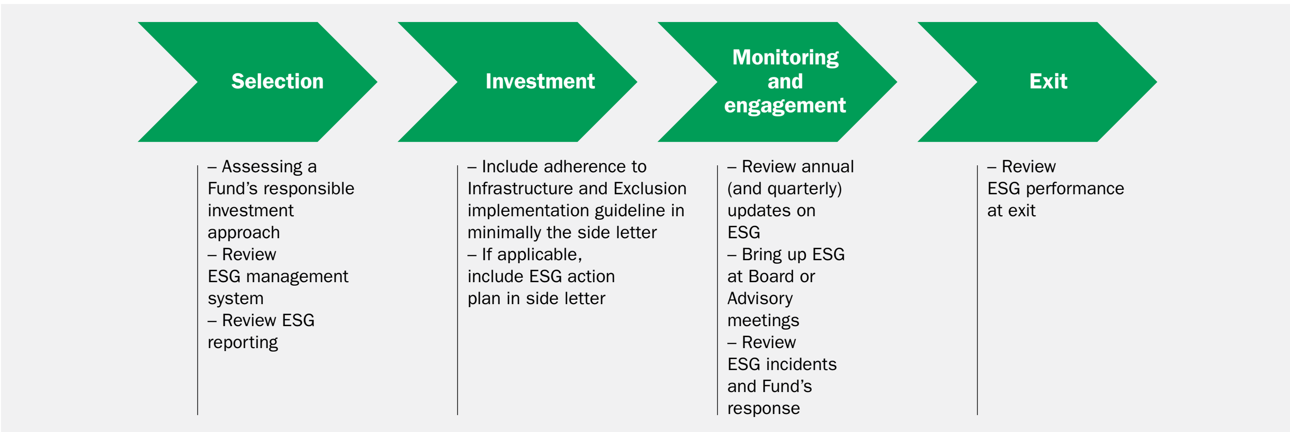

Figure 3. ESG investment cycle for funds

For more information on PGGM Investments' Responsible Investment Implementation Framework please contact our Responsible Investment department, +31 30 277 99 11 or visit our website www.pggm.com

PGGM Investments
Noordweg Noord 150
Postbus 117, 3700 AC Zeist
www.pggm.nl
K.v.K. 41179049

PGGM

14-6640 augustus 2014