



PGGM Fixed Income Sustainable Bond Framework

September, 2025



For internal classification and SDI contributing purposes

1. Introduction

PGGM IM (Investment Management/Vermogens-beheer) invests, on behalf of its client PFZW, in fixed income products. Internally, these fixed income products include Global Credit (GC), Investment Grade Credit (IGC) and Rates (government and SSA bonds). The scope of this sustainable bond framework applies to these products.

Green, Social and Sustainability (GSS) bonds, or use-of-proceeds (UoP) bonds, are devoted to financing new and existing projects with dedicated environmental and/or social benefits. In terms of volume, green bonds are by far the largest category, followed by sustainability bonds, which have an intentional mix of green and social projects. Sustainability Linked Bonds (SLBs) are the newest label in the market. This type of bond is used for general proceeds purposes but has explicit sustainability targets that are linked to

the financing conditions of the bond. This characteristic also makes them prone to a closer judgement on the strategy of the issuer to make sure sustainability targets are ambitious and aligned.

Given the ambition to make the portfolio more sustainable, PGGM increasingly invests in GSS bonds and SLBs. However, evaluating and identifying those bonds and issuers with the highest sustainable credentials is key. Moreover, PGGM should be prudent in defining bonds as sustainable, given the fact greenwashing is not uncommon.

To achieve this goal, this framework specifies the guidelines for defining sustainable bonds¹ and earmarking these as Sustainable Development Investments (SDIs). SDIs are defined as solutions that contribute to one or multiple UN Sustainable Development Goals (SDG's) and are part of the sustainability policy of PFZW².

The market for sustainable bonds continues to grow at a high pace, driven by the amount of investments needed to finance the climate transition. The global bond market can play a central role as an investment source to drive the transition, being the largest segment of capital markets globally. With this framework, PGGM aims to improve the transparency by setting minimum standards for classifying GSS bonds and SLBs.

In this framework, guidelines for defining sustainable bonds and thus earmarking these as SDIs are outlined. The structure is as follows: chapter 2 explains SDIs, chapter 3 is about the current state of the market, chapter 4 is on the framework while chapter 5 outlines the implementation and monitoring. In the annex at the end of the document, a reference to the checklist can be found.

¹ With sustainable bonds is referred to both GSS bonds and SLBs

² The sustainability policy can be found here: <https://www.pfzw.nl/content/dam/pfzw/web/over-ons/zo-beleggen-we/transparant/Duurzaam%20Beleggingsbeleid%20PFZW%20juni%202022.pdf>

2. Sustainable Development Investments (SDIs)

Over the years, there has been an increased appetite for investing in projects that support the achievement of UN Sustainable Development Goals and the need for high quality data to identify a bond issuer's contributions. PGGM, together with APG, BCI and AustralianSuper, is a sponsor of the SDI Asset Owner Platform (SDI AOP) and makes use of the SDI Taxonomy and Guidance to classify entities as SDI. The SDI classification focuses on companies' product and service-related contributions to the SDGs, and is based on financial metrics, most often revenues.

The SDI Taxonomy and Guidance is updated on a regular basis with new classification rules, and these are the basis for SDI classifications within PGGM. The SDI AOP Research Committee is the entity that updates the classification rules based on proprietary research. The dataset is updated on a quarterly basis. The methodology works as follows:

1. Each company or entity with coverage in the database is mapped against one or multiple SDG contributions, whichever applies.
2. Once mapped to their SDG contributions, their specific contributing revenue percentages are calculated.
3. The result of the process is a confidence level per entity (a classification number between 1 and 5) that reflects the strength investment's link with SDGs, together with a qualitative rationale.

Currently PGGM only classifies investments as SDIs when confidence scores are 4 or 5³. The SDI-exposure is based on the actual SDI-revenue-percentage of each entity. Additional to the company SDI classifications, PGGM also believes that sustainable bonds are well suited instruments to contribute to SDGs, under the condition that they adhere to the standards defined in this PGGM sustainable bond framework.

For non-covered entities by the AOP, the PGGM Fixed Income team can also propose an investment as SDI via the internal SDI assessment form. The rationale of the proposal is submitted to the Responsible Investment team, who assesses the proposal. The decision is based and tested on the latest version of the SDI Taxonomy and Guidance.

PFZW's sustainability policy is focused on providing participants a good pension in a livable world. The goal for 2025 is to have at least 20% of its Assets under Management (AuM) invested in SDI's. In 2030, this percentage needs to increase to 30%, with at least 15% in climate related SDI-investments. In the investment portfolio, the focus is specifically on measuring and providing capital for impact in seven SDGs that fit our participants' two main focus areas⁴:

- People & health: SDG 2 (food security), SDG 3 (health and well-being) and SDG 6 (water security).
- Climate: SDG 7 (affordable and sustainable energy), SDG 11 (sustainable cities and communities), SDG 12 (responsible production and consumption) and SDG 13 (climate action).

Other goal for PFZW is to double the impact on the focus SDGs.⁵ Therefore, impact reporting is very relevant for SDI labeling.

³ Can be found in the SDI classification methodology handbook: [20221019_SDI_classification_methodology_2022_IC_002.docx](#)

⁴ Can be found (among others), in the 2023 'Klimaatplan' [Klimaatplan 2023 \(pfzw.nl\)](#)

⁵ Can be found (among others), in the 2024 [Duurzaam Beleggingsbeleid PFZW - maart 2024.pdf](#)

3. Current state of the market

PGGM IM is a member of ICMA (International Capital Market Association) and adheres to the ICMA Principles. The ICMA Principles outline best market practices distinguishing between: Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG) and the Sustainability-Linked Bond Principles (SLBP). The Principles are a collection of voluntary frameworks with the stated mission and vision of promoting the role that global debt capital markets can play in financing progress towards environmental and social sustainability. PGGM seeks to align our sustainable bond framework with best practices as defined by the ICMA's Principles.

ICMA defines a GSS bond as any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible green, social or sustainability projects. These must be aligned with the four core principles:

- 1) Use of proceeds
- 2) Process for project evaluation and selection
- 3) Management of proceeds
- 4) Reporting

Besides, key recommendations must be followed for heightened transparency: i) the issuers' own green bond frameworks and ii) independent external reviews.⁶

Additionally, ICMA defines a SLB as any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability/ESG objectives. SLBs are forward-looking performance-based instruments because issuers are committing to future improvements in sustainability outcome(s) within a predefined timeline. SLBs incentivize the issuer's achievement of material, quantitative, pre-determined, ambitious, regularly monitored and externally verified sustainability (ESG) objectives through Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs). The SLB principles must be aligned with five components⁷:

- 1) Selection of KPIs
- 2) Calibration of SPTs
- 3) Bond characteristics
- 4) Reporting
- 5) Verification

The European Green Bond Standard (EU GBS)

The EU GBS establishes an EU voluntary high-quality standard for green bonds. Based on this new agreement (although provisional at the time of writing), issuers would need to ensure that 85% (minimum) of funds raised are allocated to economic activities that are aligned with the EU Taxonomy. This will allow investors to more easily assess, compare and trust that their investments are sustainable, thereby reducing the risks posed by greenwashing.

⁶ [Green-Bond-Principles-GBP-June-2025.pdf](#)

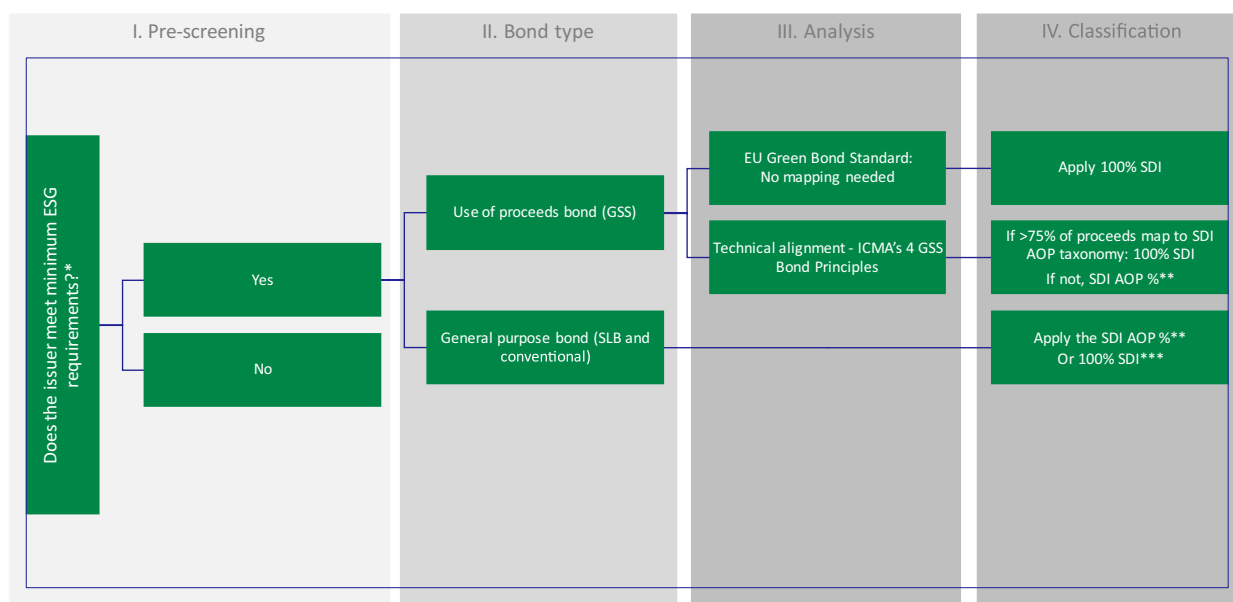
⁷ [icmagroup.org/assets/documents/Sustainable-finance/2024-updates/Sustainability-Linked-Bond-Principles-June-2024.pdf](#)

PGGM IM believes that with the introduction of the EU taxonomy and GBS, a gold standard in the market is set. However, the EU GBS has some limitations as well. The stringent criteria, limited data availability, high costs and potentially heightened liability risk causes many issuers to find it too difficult or risky to adopt the new EU GBS. The challenges in actually using the standard is merely about the complexity of implementing all aspects of the EU taxonomy on the asset side. It turns out more issuers are including “substantial contribution” criteria in their issuance, but it seems very hard for them to align with the “do no significant harm” and “minimum social safeguards” requirements due to a data gap.

4. Framework

The purpose of this framework is to determine whether a bond can internally be defined as a sustainable bond and thus if the bond can be earmarked as a SDI. The amount of SDIs can be used to calculate the percentage of alignment of a fixed-income portfolio to sustainability targets. The flowchart below can be used to classify sustainable bonds. Please find in the annex a larger image for better readability.

Figure 1: SDI classification of sustainable bonds



* The issuer could either be flagged negatively in PGGM's exclusion and screening process

** If the entity is not covered by the SDI AOP, a request for inclusion starts at the RI department. The entity entitles a 0% SDI, until covered by the SDI AOP

*** Investment teams are free to label a bond fully as SDI independently of the % of SDI AOP if it is seen to be justified e.g., due to holistic impact reporting

The four different phases of the SDI classification process consist in detail of:

I. Pre-screening

PGGM IM believes that all investments should apply a responsible basis and the issuing entity should be assessed against minimum ESG (environmental, social, governance) requirements. The responsible basis includes behavior-based and product-based screening and exclusions. Based on the IMVB covenant⁸ countries and/or companies that violate international norms (OECD) and companies producing or trading undesired products are excluded. If the issuer is flagged negatively in PGGM's exclusion and screening process, no further assessment is necessary for the framework. There is no exposure to these violators, automatically setting a minimum threshold on sustainable bond inclusion. The PFZW-PGGM exclusion list is updated on a semi-annual basis.

II. Bond type

Distinction is on the use of proceeds bonds (GSS) and general purpose bonds (SLB and conventional) as the analysis differs together with the outcome on SDI classification.

⁸ The IMVB covenant: "internationaal maatschappelijk verantwoord beleggen" is an agreement between parties (Dutch pension funds, NGO's, trade unions and the government) to prevent and address negative impacts of pension fund investments on society and the environment

III. Analysis

The analysis on the use of proceeds bonds (GSS) depends on the standard of issuance. If the entities' issued bond complies with the EU GBS, PGGM IM believes that the standard is of such high quality, given the intent and classification of taxonomy-aligned activities (with 85% adherence) that no mapping or further checks are needed.

In all other cases, the team sets as minimum standard the alignment to the four core components of the ICMA principles. It can happen that the entities' framework under which the bond is issued does not formally state alignment with the ICMA principles. The technical alignment check will give the final outcome. Based on an internal created 'check the boxes system', that relates to the four core components, the bond's framework could still lead to adherence to the standards set by ICMA.

Given the end goal of this framework is to classify sustainable bonds as SDI, there is no need to analyze the SLBs. The structure of these type of bonds is different than conventional bonds, but by definition remains used for the funding of general purposes. The SDI percentage the AOP assigns is based on the companies' revenue breakdown of its products in relation to the SDI taxonomy. Any judgement on the quality of the SLB would not affect the SDI AOP percentage. There is a mismatch between an entity's forward looking strategy (what the SLB addresses) and the products it offers. There is no rationale to treat SLBs different than conventional bonds.

IV. Classification

The entity's bond framework adheres to the EU GBS results in assigning 100% SDI alignment.

The entity's bond framework adheres to the ICMA Principles, and over 75% of the proceeds map to the SDI AOP Taxonomy, results in assigning 100% SDI alignment. The majority of frameworks address an upfront allocation to the eligible projects targeted by the framework or disclose guidance on the distribution to eligible projects. If the issuer does not provide upfront information on the distribution of the projects, the PM/analyst will engage to obtain this information and provide the available information to the internal RI department, which will to the best capabilities map to the SDI taxonomy.

The entity's bond framework adheres to the ICMA principles, but less than 75% of the proceeds are mapped to the SDI taxonomy, the percentage of the SDI AOP is adopted.

In the case that the entity is not (yet) covered by the SDI AOP, a request for inclusion is submitted by the Front Office team to the RI department via an assessment form that determines the entity's alignment.

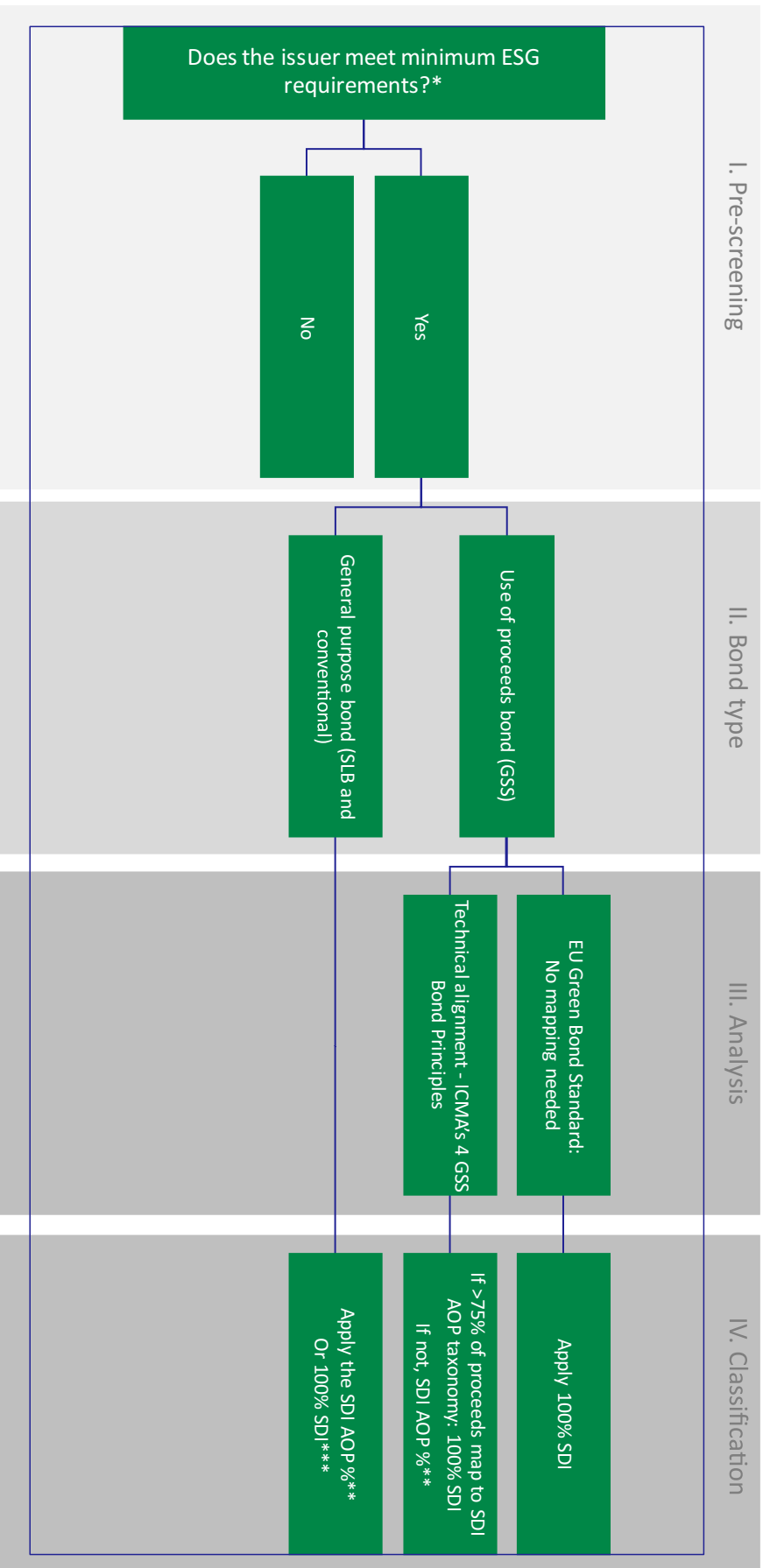
For SLB's, PGGM IM adopts the percentage of the SDI AOP in line with the conventional bonds of the entity.

5. Implementation and Monitoring

The implementation of the sustainable bond framework is as follows. Every issuer of a GSS bond and/or SLB is assessed against this framework to determine whether the sustainable bond can be classified as a SDI. PGGM implements this framework in the investment processes and reports on the classifications. On a quarterly basis, the outcomes are shared with the PGGM Responsible Investment team for companywide reporting purposes.

After a bond is classified as a SDI, it remains important to monitor and track the issuer's stated commitments over time. These commitments relate e.g. to pre-defined projects, reporting requirements and progress. It is specifically the case for the SLB label, in relation to the criteria set out in the strategic alignment check. This reassessment could result in a change of the label and the respective SDG contribution of a bond or an issuer.

6. Annex



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 *** Investment teams are free to label a bond fully as SDI independently of the % of SDI AOP if it is seen to be justified e.g., due to holistic impact reporting