

Position Paper on Anti-Bribery & Corruption

Responsible Investment | Research

Zeist, January 2019

This document provides guidance to definitions of unethical business practices and PGGM's understanding and approach towards these practices. We address the way in which we engage with managers, business relations and investee companies to abolish these practices. This guidance can be used to further clarify the implementation of PGGM's policy as it relates to third parties. The expectations and the proposed process will help investment teams and external parties detect, evaluate and address the relevant issues.

[PGGM's Code of Conduct](#) (in Dutch) shows our commitment and sets the tone for our interaction with clients, suppliers, colleagues and society in general. In combination with regular training it also ensures that all employees are familiar with the specified guidelines. [PGGM's Whistle-blower guidelines](#) (in Dutch) show the procedures for internal and external reporting of actual and potential abuse, such as corruption or any other perceived violation of the law or the policies. The whistle-blower policy also includes anonymity and guarantees protection for employees who report actual or potential abuse in good faith.

1. Introduction

As an asset manager for our clients, PGGM is exposed to different sectors and countries all over the world. Some of these countries and sectors have less stringent laws concerning corruption and even consider different types of corruption as a normal cost of doing business. In other countries and sectors corruption is a sanctioned offence. Increasingly, anti-corruption enforcement is global and sometimes has an extraterritorial reach.

Multinational companies with connections to the US and UK are growing more aware of the risks due to the enforcement of the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (Bribery Act). PGGM, as a responsible investor, commits to raise awareness with our counterparties to improve the standards and work against corruption in all investments.

PGGM recognizes the severe negative impacts of corruption to social and economic development. Every year the cost of corruption increases the overall cost of public services, it hurts good businesses and hinders economic development. Corruption is also detrimental to the efficiency of financial markets. By distorting competition, corruption can prevent efficient and fair pricing. The costs of doing business thus increases, reducing overall profitability.

For PGGM, as an investor, the risks of being linked to companies that are involved in forms of corruption are significant. A fund manager involved or linked to these activities can bring reputation damage to its investors. This can also become a commercial risk. When law enforcement agencies start to investigate a company that is suspected of corruption, it can be difficult to sell the company – assets can be frozen or seized and the true value of the company is likely to be uncertain as turnover and bank balances may have been artificially inflated.

2. Definitions

There are many ways for business to engage in unethical business conduct. PGGM has zero tolerance for any form of corruption, including bribery, facilitation payments, extortion and kickbacks.

PGGM follows the guidance from relevant international institutions such as the UN Convention against Corruption (UNCAC) and the UN Global Compact with its 10th Principle. The 10th principle demands that companies not only avoid bribery, extortion and other forms of corruption, but also proactively develop policies and concrete programs to address corruption internally and within their supply chains.

Corruption

PGGM accepts the definition of corruption by Transparency International as “a political, social and economic phenomenon whereby entrusted power is abused for private gain”. The UN Global Compact sets the expectations of companies to work against corruption in all its forms, including extortion and bribery. Below we describe the most common forms of corruption.

Bribery

Bribery is prohibited under the OECD Anti-Bribery Convention and considered a criminal offence in almost all jurisdictions. Transparency International defines bribery as “an offer or receipt of any gift, loan, fee, reward or other advantage to or from any person as an inducement to do something which is dishonest, illegal or a breach of trust, in the conduct of the enterprise's business”.

A distinction is sometimes made between bribery and facilitation payments:

- Bribery concerns substantial payments of gifts whereby governments, companies or individuals are incited to act unlawfully. So it can be towards public officials or private companies.

- Facilitation payments, also punishable offences in the Netherlands and most countries, involve smaller sums aimed at government officials for example performing lawful acts more quickly.

Extortion

Extortion, according to the OECD Guidelines for Multinational Enterprises is: “The solicitation of bribes is the act of asking or enticing another to commit bribery. It becomes extortion when the demand is accompanied by threats that endanger the personal integrity or the life of the private actors involved.”.

Kickback

Kickback is common in procurement processes. It is a form of a negotiated bribe which implies collusion between agents of the two parties, rather than one party extorting the bribe from the other. Here a commission is paid to the bribe-taker in exchange for services rendered. An example is a vendor submitting an inflated invoice with an employee of the victim company assisting in securing payment for which the individual receives some sort of payment. These are more common in procurement processes.

3. Implementation

PGGM aligns with international and regional legal frameworks such as the UN Convention against Corruption and the UN Global Compact. Apart from looking at our own behaviour, as elaborated in the Code of Conduct, we also analyse the exposure and risk of unethical behaviour with third parties: companies, fund managers and other business relations we work with. The approach is different and tailored to the way of investing and the type of relationship.

We accept the definition of due diligence as described in the OECD Guidelines as an ongoing, repetitive process aimed at *identifying, assessing, mitigating and accounting* for the negative impacts coming from business relations or

portfolio companies involved in corruption. We will shortly describe the different approaches and tools we use in this process depending on the proximity to our investments and type of investing (active or passive, direct or indirect).

Due diligence for passive investments

Our listed equities and credits portfolios are largely run through external parties and are in majority index replication strategies. We call these passive investments.

PGGM screens this portfolio on a quarterly basis for severe actual negative impacts through the violations of the UN Global Compact relating to the 10th principle. We engage with these companies and expect them to adopt a policy (ideally publicly available) and/or code of conduct and commit themselves to enforce and report on procedures to prevent corruption.

This means for example committing to compliance with the national laws, but also supporting (inter)national and legal frameworks. Maintaining a gift and hospitality register, reporting in annual reports and accounts and auditing is also important. Additionally we ask companies to set up whistleblowing channels where relevant and report on the efficiency of such mechanisms.

Due Diligence in active, more direct investments

PGGM’s private markets and alternative investments are mostly managed by internal teams with larger ownership percentages. Here influence is often larger than in our passive investments, even though here too we often depend on external managers and business relations.

Corruption is a material topic in the due diligence process, especially for certain industries and countries. This topic is also a part of the regular analysis performed by the risk and operational due diligence teams. Where the risk is deemed high, or where we find evidence of any wrongdoing in the past, we analyse how the

company has remedied the situation and what has improved in terms of policy and management systems. We also reach out to local NGOs to find out more about the issue in question. This helps us determine if through owning the asset we could try to minimize the negative impact. The findings from due diligence are acknowledged in the asset management phase. When necessary and possible we set up an action plan to improve the policies and systems of the asset.

Indirect investment and working with third parties

For almost all our asset classes, private or public and active or passive, we work with a number of third parties: banks, asset managers, intermediaries and individuals. We use publicly available information and data providers to investigate whether parties, with which we have or wish to have an investment relationship, are or were in the past involved in corruption. This

investigation usually also extends to people directly involved with these parties, such as directors. If the results of this investigation so warrant, we refrain from entering into a relationship with these parties or terminate existing relationships.

As part of our due diligence process, we verify the existence and content of anti-corruption policies and procedures when assessing investment opportunities in companies and with fund managers – as well as the underlying companies in which they invest – by reviewing documentation and testing awareness during onsite meetings. This process is repetitive and ongoing during the invested period. We monitor reporting and visit the investee companies and other relevant third parties for monitoring and engagement.

For more information on **PGGM Investments' Responsible Investment Implementation Framework** please contact our Responsible Investment department, +31 (0)30 277 99 11, responsibleinvestment@pggm.nl, or visit our website www.pggm.com

Disclaimer

The information in this document has been compiled with care by its authors. Omissions and errors pertain to the authors. Information may change without prior notification.

PGGM Investments
Noordweg Noord 150
Postbus 117, 3700 AC Zeist

Annex: PGGM's expectations for business partners and investee companies

PGGM expects that its business partners and investee companies take bribery and corruption seriously and develop the necessary policies and management systems to tackle it in their work. Transparency International and other organizations provide guidance on developing a good anti-bribery and corruption systems. We expect that the business partners and companies evaluate how they can implement this guidance specific to their business.

The expectations involve five steps: Commitment, implementation (Assessment and Improvement) and monitoring (Review and Engage). We follow the guidance by Transparency International to establish our process.

1. Commitment

- Create an enabling environment and culture
 - Establish proper tone from board and management in their statements and activities;
 - Design remuneration and incentives so they do not reward undermining behaviour.
- Ensure proper governance and commitment
 - Develop and Anti-bribery commitment or a policy/a process to identify and comply with anti-bribery and related laws, clear assignment of responsibilities for the anti-bribery program taking into account the company's organisational structure.
- Enabling factors: Stakeholder engagement, Corporate community investment, Sustainable development, Collective action, Business systems

2. Assessment

- Carry out risk assessment
 - Understand the range of bribery/corruption risks facing the company and deciding which are the most significant to address. Focus on the highest risks, evaluate as consistently as possible (likelihood and impact framework), repeat the process periodically.
- Understand different types of corruption – bribery, kickbacks, active or passive
- Address small bribes: Assess the risks, develop policies and procedures to counter small bribes, communicate and train, address third parties and enable accounting controls to counter small bribes.

3. Implement and Improve

- Introduce controls and prevention
 - Establish financial controls – checks and balances, record transactions, implement audits;
 - Set limits to gifts, hospitality and expenses – training for employees;
 - Mitigate conflicts of interest – maintain a register, screen potential board members.
- Mitigate high risk activities
 - Manage political engagement – board should have oversight and CEO or senior management responsibility for political engagement as a whole. Be transparent about public policy positions, donations and lobbying activities.
 - Avoid bribes surrounding charitable donations, community investments and sponsorships can be used as bribes.
 - Have a strategy and ensure that all proposals fit within the strategy and the established criteria. Conduct due diligence to see if they are affiliated with public officials or existing or

potential customers. Implement controls (approval thresholds and counter-signatories) and monitor payments to make sure that procedures are followed. Be transparent about your donations and sponsorship strategy, procedures and payments.

- Manage third parties
 - Create and implement a risk-based, integrated and consistent approach to anti-bribery management of third parties across company operations.
 - Carry out due diligence – collect, analyse and store relevant information about all third parties including their ownership, how they operate, their integrity and anti-corruption standards and any significant risks.
 - Be systematic and focus on highest risks and build trust and constructive relationship.
- Procurement and Contracting
 - Put in place and ensure effective procedures to counter bribery and corruption in its procurement and contracting processes. This includes tailored training for staff and financial controls over payments to contractors. Companies should also communicate the anti-bribery program to contractors and suppliers, and include anti-bribery provisions in contracts, and conduct rigorous monitoring of transactions and high-value contracts.
- Organizational Resilience
 - Develop training and communication, i.e. integrated, tailored communication and training, involvement from the top and important line managers, appraisal and continuous improvement.
 - Facilitate speak-up & Advice channels – build open culture, provide a range of channels, deal with matters promptly, complete the process and analyse the use of the speak-up channels for early warning signs.
- Enforce role of Human Resources
 - Recruit and appoint the right people, help design the anti-bribery program: incentivize, appraise and recognize, discipline.

4. Monitor and Review

- Ensure continuous improvement of the anti-bribery program, use new technology, engage external review to audit and improve existing processes. Report on results of monitoring to senior management and the Board and ensure that improvements are implemented where deficiencies have been identified.

5. Engage

- Develop external engagement and reporting
 - Integrate the approach to external communications, public reporting and stakeholder engagement and incorporate reporting on integrity and the anti-bribery program in public reporting;
 - Use public reporting as a means to drive improvement, making use of KPIs where possible;
 - Provide organisational transparency and country-by-country reporting;
 - Use continuous reporting to provide accessible, up-to-date information;
 - Be transparent about vulnerable processes, such as contracting and procurement (subject to commercial confidentiality, privacy and data security laws)