



# Beliefs, principles and implementation framework for sustainable investment

PGGM Vermogensbeheer B.V.

August 2025

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# **Explanation of the beliefs, principles and implementation framework for sustainable investment**

## **Introduction**

As an asset manager, PGGM invests mainly for PFZW, the pension fund for employees in the Dutch healthcare sector. PGGM manages 100% of the portfolio of Pensioenfond's Zorg en Welzijn (hereinafter referred to as PFZW). In addition, PGGM manages two private market investment funds in which - in addition to PFZW - other Dutch pension funds also participate. These two investment funds are the PGGM Private Real Estate Fund and the PGGM Infrastructure Fund (the 'PGGM funds').

This document describes the Beliefs, Principles and the Sustainable Investment Implementation Framework of PGGM Vermogensbeheer B.V. (hereinafter referred to as PGGM). The Implementation Framework consists of implementation guidelines that clarify how we integrate sustainability into our investment processes, how we put it into practice and account for it. The implementation guidelines give substance to the PGGM Beliefs and Principles in this area.

## **Implementation framework and implementation guidelines**

The Sustainable Investment Implementation Framework consists of various implementation guidelines. The implementation guidelines set out how PGGM implements its activities in the field of sustainable investment within funds managed by PGGM and mandates for PFZW managed by PGGM.

The Sustainable Investment Implementation Framework includes the following implementation guidelines:

- Sustainability risk management implementation guideline
- Stewardship implementation guideline divided into:
  - Implementation guideline voting and submission of shareholder proposals
  - Implementation guideline Engagement
  - implementation guideline legal procedures
- Investment universe design implementation guideline: Minimum sustainability standards
- Capital allocation implementation guideline, divided into:
  - Implementation guideline classification and allocation to SDIs
  - Implementation guideline Investing in line with the Paris Agreement
  - Implementation guideline Impact Investing.

For each implementation guideline, this document indicates whether this applies to the PGGM funds and/or to the mandates managed for PFZW.

## **Reporting and accountability**

PGGM accounts for the implementation of the implementation guidelines from the Sustainable Investment Implementation Framework to clients on an annual basis.

With regard to Stewardship, we apply the reporting in accordance with Dutch law. For example, PGGM and its clients have a legal obligation to report on compliance with these principles and best practice provisions of the Dutch Corporate Governance Code, in accordance with the so-called 'comply or explain' rule. The statement on the degree of compliance is included in the annual report and/or on the PGGM website.

### **Updating and adaptation**

The Convictions, Principles and Implementation Framework and/or the underlying Implementation Guidelines will be updated if developments give cause to do so, PGGM will take the initiative and inform clients and other stakeholders about this. Extensive and far-reaching changes, which may have an effect on the performance of the funds, for example, are submitted to the clients by the Funds Directorate for consultation. Proposals for changes from the clients are discussed in the participant meetings for the funds in question.

### **Roles and responsibilities**

Various parties are involved in the determination, implementation and possible adjustment of the Beliefs, Principles and Implementation Framework and/or the underlying implementation guidelines. The roles and responsibilities of those involved are as follows:

#### **Chief Investment Officer – Total Portfolio (CIO-TP)**

The CIO-TP makes decisions on the implementation aspects of sustainable investing and, as a risk owner, oversees the management of sustainability risks in the investment portfolios.

#### **Total Portfolio Management (TPM)**

The TPM team is responsible for the (further) development of the Sustainable Investment Implementation Framework, consisting of the various implementation guidelines.

#### **Participantenvergadering**

Through a participant meeting, the various clients who participate in a PGGM Infrastructure Fund or the PGGM Private Real Estate Fund have the opportunity to discuss and/or decide with each other on fund-specific topics. Decision-making will take place in accordance with the relevant terms and conditions as applicable to the PGGM fund in question.

Decision-making relating to PFZW's mandates managed by PGGM is done in coordination between PGGM and PFZW.

## Introduction to 3D investing

At the beginning of 2023, PGGM and PFZW focused on a joint strategy: 3D investing. The shift to 3D investing aligns with our ambition for 2030: to achieve strong financial results while creating long-term value for our clients' participants. The implementation of this strategy is a gradual process.

The need for a new vision and strategy was driven by several factors:

- In the new pension policy, participants will be more closely linked to the investment portfolio.
- Transitions, such as the energy transition, entail financial risks and opportunities that are intertwined with contributing to a better world.
- The demand for a transparent and sustainable portfolio, for which full responsibility can be taken, is growing stronger every day.
- Taking into account the 'real world impact' of the investments we make for our clients is becoming an increasingly important part of our fiduciary duty.
- The rapid digital transformation in wealth management requires adaptation. This transformation also provides tools for a more effective investment process and organization.

In the 3D investment approach, we make every investment decision based on the balance between return, risk and sustainability:

- Return: achieving a net market return that is equal to or higher than the market index.
- Risk: the inclusion of sustainability risks to reduce the absolute risk in the long term, should these risks occur.
- Sustainability: strengthening the sustainability profile and making conscious, measurable impact investments.

The sustainability dimension looks at the positioning of companies in the fundamental transitions in the areas of, among other things, energy, food, materials and health.

As part of the 3D investment approach, PGGM and PFZW strive to account for each investment on all three dimensions. This requires continuous efforts to improve data availability and transparency, particularly in the area of sustainability. Taking into account the current limitations in data quality, the transition will initially focus on learning, monitoring and gaining experience on specific sustainability themes, before implementing stricter policies. The journey to our ideal 2030 state requires caution, continuous learning, and adaptive ability.

## Beliefs and principles

PGGM wants to contribute to responsible investment results for clients through its activities in the field of sustainable investing.

This objective is based on the following beliefs:

- **Sustainable investing pays off:** PGGM is convinced that the sustainability factor has a material influence on the risk-return profile of the investments and that this influence will continue to increase in the future. Integrating ESG risks ensures that we provide insight into risks and opportunities that we would not otherwise see. We are convinced that integrating ESG risks can improve the risk-return trade-off. This ensures a portfolio that is sustainable in the long term.
- **Focus on the long term:** PGGM is convinced that sustainable development of the world is necessary in order to be able to generate good and stable investment results for our clients in the long term. We keep a focus on transitions that are important now and in the future.
- **The steering force of money:** PGGM is convinced that, within the framework of the mission to ensure a good and sustainable pension for our clients' participants, a positive contribution to sustainable development can and must be made through the steering power of the investments for our clients.

## Principles for implementation

PGGM's ambition is to be an excellent provider in the field of sustainable investment. When implementing the investment policy of clients, it must therefore be recognizable and demonstrable how PGGM implements this. To this end, PGGM has formulated ten principles for implementation that are implemented through various activities in the field of responsible investment. The principles set a strict lower limit for the investments, give direction to the Implementation Framework for sustainable investment and serve as an assessment framework for advice.

### 1. Sustainability is an integral part of PGGM's (investment) activities.

Based on our beliefs, including sustainability factors in investment decisions responsible investment is not only necessary, but also self-evident. Sustainability is just as important a part of investment decisions as risk and return. These three dimensions are inextricably linked. The risks and opportunities that sustainability factors entail are therefore consciously taken into account in all investment processes and activities.

### 2. PGGM has a clear focus for its activities in the field of sustainable investing.

Based on our vision of sustainable development, of what needs to change for a more sustainable world and how PGGM can contribute to this, we make clear choices in consultation with our clients for the areas of focus on which we focus. This means that there are also areas that PGGM will not focus on. This is based on the conviction that a clear focus contributes to increasing the effects we can achieve through these activities.

### 3. PGGM takes a critical look at its own behaviour and the behaviour of parties in the financial sector with whom it collaborates in order to achieve a more stable and sustainable financial system.

To generate returns for clients, PGGM is highly dependent on the health of the financial system. The current short-term focus poses a significant risk to the stability of the financial system. From this point of view, PGGM and its clients take a critical look at its own behaviour and investment

activities. PGGM also uses its influence to encourage long-term behaviour among other parties in the financial sector. If an opposing party continues to exhibit undesirable behaviour, it can eventually say goodbye.

**4. On behalf of its clients, PGGM acts as an active owner.**

The risk and return of the investments are highly dependent on well-functioning markets, companies and social systems. On behalf of clients, PGGM therefore uses its influence as an active owner to contribute to the quality, sustainability and continuity of companies and markets. Instruments such as dialogue with companies and market parties, such as regulators, voting at shareholders' meetings and conducting legal proceedings, are used for this purpose.

**5. PGGM sets a strict normative lower limit on the investments that are carried out for clients.**

Companies in which PGGM invests must comply with the lower limit in terms of behaviour and product that we set. When companies do not meet this lower limit, we do not invest in them on behalf of our clients. In addition, PGGM does not invest in government bonds of states that are subject to sanctions by the UN Security Council and/or the European Union, when they are aimed at the country itself or at the incumbent government and concern an arms embargo or relate to a situation of gross and systematic violation of human rights or when there is a possible use of controversial weapons.

**6. PGGM wants to actively contribute to solutions for social issues through (part of) the investments for clients.**

The long-term focus and the size of the assets invested with PGGM create the opportunity to use the steering power of these assets for the benefit of a more liveable, sustainable world. This is done by investing through various asset classes in innovative and/or scalable solutions for (future) social issues that matter to our clients who may materially affect the investment portfolio.

**7. Collaboration with institutional investors and other market participants leads to synergy and increases impact.**

PGGM believes that we can achieve more by working together with other (financial) market parties. We therefore actively collaborate with other institutional investors and other parties. We play an active role in various networks such as Eumedion.

**8. PGGM is actively looking for robust methods to provide insight into the financial and social contribution of the choices made with regard to sustainable investment.**

Providing insight into the financial implications of sustainable investing and mapping out the social added value as a result of sustainable investing is constantly evolving. New international standards, political developments and knowledge can change methods. PGGM therefore works closely with academics and other partners to develop robust methods for this.

**9. PGGM is transparent about its activities in the field of sustainable investment and is accountable for this.**

Transparency is essential. PGGM is accountable to clients, their participants and other stakeholders for responsible investment activities, objectives and results.

# Sustainability Risk Management implementation guideline

## Introduction

This Implementation Guideline describes how PGGM implements the identification, assessment, mitigation and monitoring of investment-related sustainability risks (environmental, social and governance risks).

## Definition

PGGM distinguishes six types of sustainability risks:

1. Financial sustainability risk
2. Social sustainability risk
3. Reputation for sustainability risk
4. Operational sustainability risk
5. Sustainability risk compliance
6. Legal sustainability risk

For financial sustainability risk, PGGM uses the definition from the SFDR legislation: "an environmental, social or governance event or circumstance that, if it occurs, could cause an actual or potential material adverse impact on the value of an investment". Examples of sustainability risks that can affect the value of investments are climate change and biodiversity loss.

By social sustainability risk, we mean the negative impact of investments on people and society. This is referred to in the SFDR legislation as 'principal adverse impacts of investment decisions on sustainability factors'. PGGM defines sustainability risk as: negative publicity that can arise when the investment policy does not match the preferences and expectations of stakeholders.

Operational sustainability risk is the risk that internal processes or systems are not sufficiently set up to meet ESG requirements. Compliance with sustainability risk arises from failure to meet the requirements of (new) laws and regulations regarding sustainability. Legal sustainability risk arises as a result of non-compliance with sustainability legislation or commitments or failure to meet social expectations.

The first three types of sustainability risk are related to the investments, while operational, compliance and legal sustainability risk mainly relate to the way in which PGGM provides its services. This Implementation Guideline only addresses the first three sustainability risks mentioned above because they affect the portfolio.

## Objective

The aim of sustainability risk management is to identify and – where necessary – mitigate material sustainability risks. If a certain sustainability risk is considered too high, mitigating measures can be taken, for example by reducing the exposure to the risk. European laws and regulations are increasingly imposing requirements on screening for sustainability risk factors because these ESG factors can influence the returns and reputation of our clients. DNB also supervises the integration of sustainability risks by asset managers such as PGGM.

## Scope

This guideline applies to all PGGM funds and PFZW's mandates managed by PGGM.



## Implementation

PGGM implements the management of sustainability risk based on the four phases in the risk management process. This only concerns the ESG risks that are directly related to the investments:

1. Risk identification
2. Risk assessment
3. Risk mitigation
4. Risk monitoring

### Risk identification

To assess which ESG risks are relevant to the value of the investments in the portfolio, PGGM conducts a materiality analysis every three years. The Materiality Map of the Sustainability Accounting Board (SASB) is used for this. Not only is the probability and impact of a certain risk assessed, but the exposure to a risk in the investment portfolio is also taken into account.

### Risk assessment

To assess financial sustainability risks on an ongoing basis, PGGM also uses risk information from external suppliers. Based on this information, an assessment of sustainability risks can be made for a large part of the investments.

### Risk mitigation

PGGM's investment teams have an important role in managing sustainability risks. By gaining insight into the CO2 emissions of their investments, they can, for example, assess climate transition risks in their portfolios. In addition, investment teams regularly assess the extent to which their investments are in line with the objectives of the Paris Agreement. They also assess the governance risks of the companies in which they invest.

By not including investments that do not meet PGGM's minimum sustainability standards, we limit financial, reputational and social sustainability risks.

In the case of investments in private markets, investment proposals are tested in advance for sustainability risks in a due diligence process. If an investment has too great a sustainability risk, that can be a reason not to make an investment.

### Risk monitoring

To monitor the identified risk types at portfolio level, PGGM uses key risk indicators (KRIs) in line with DNB's recommendations. The purpose of using the KRIs is not to minimize sustainability risk in the portfolio, but to get a better picture of the risks. Currently, KRIs have been developed for climate risks and biodiversity risks.

# Stewardship Implementation Guideline

## Introduction

This Implementation Guideline describes how PGGM implements its Stewardship activities for the investments.<sup>1</sup>

## Definition

Stewardship includes engagement, voting, submitting shareholder proposals, and conducting shareholder litigation. PGGM defines engagement as a constructive dialogue with companies in the investment portfolio or market parties such as regulators, supervisors and sector organisations, with the aim of achieving a predetermined (behavioural) change.

Furthermore, the right to vote at shareholders' meetings of listed companies is one of the most important rights as a shareholder. PGGM can thus influence the way in which a company is managed. As shareholders, PGGM also has the right to submit a shareholder proposal in some markets. In this way, PGGM can draw attention to topics and ask other investors to make an opinion on them.

In this context, PGGM defines shareholder litigation as conducting legal proceedings in its capacity as a shareholder in (listed) companies in which PGGM invests on behalf of its clients. In cases, this may also involve other financial instruments such as bonds and/or derivatives.

## Objective

PGGM actively uses its influence as a steward to achieve improvements in the areas of risk, return and sustainability. In this way, PGGM contributes to the quality and continuity of companies and markets.

PGGM considers shareholders to be co-owners of the companies in which they invest. Being an owner entails rights and responsibilities. With its stewardship activities, PGGM fulfils the rights and responsibilities associated with the shareholding of companies. Where relevant and possible, we also apply our stewardship activities to investment categories in which PGGM is not a shareholder, for example within credit.

Good corporate governance enables us to promote financial and sustainability performance at the companies in which we invest on behalf of clients. We define good corporate governance as: an appropriate and coherent system of checks and balances in the relationships between the management board, the supervisory board and the shareholders with a certain standard setting for the conduct, the exercise of powers and the accountability thereof. PGGM works to promote corporate governance standards in the (emerging) markets in which it invests. We take particular responsibility for our home market of the Netherlands.

## Scope


This guideline applies to all PGGM funds and PFZW's mandates managed by PGGM.

## Implementation

Giving substance to Stewardship is not without obligation now that minimum requirements are increasingly being imposed on institutional investors worldwide. For PGGM and its clients, these

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<sup>1</sup> The engagement policy as referred to in Section 5:87c of the Financial Supervision Act (Wft).



minimum requirements are laid down in the applicable Dutch laws and regulations and in the Dutch corporate governance code.

For the implementation of Stewardship, PGGM aligns with standards and principles of various organizations, such as:

- the principle of active ownership of the Principles for Responsible Investment (PRI)
- de Nederlandse Corporate Governance code
- de Nederlandse Stewardship Code
- the principles of the United Nations Global Compact
- the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.

PGGM also endorses internationally recognised and accepted basic principles for good corporate governance. PGGM refers, among other things, to the OECD's Basic Principles for Corporate Governance (2023) and the International Corporate Governance Network's (ICGN, 2009) 'Statement on Global Corporate Governance Principles: Revised' and incorporates them into its activities.

The way in which PGGM gives concrete substance to active shareholding is described in more detail in the implementation guidelines in the areas of:

- Voting and submitting shareholder proposals
- Engagement
- Legal proceedings as a shareholder

# Implementation Guideline Voting and Submission of Shareholder Proposals

## Introduction

This Implementation Guideline describes how PGGM implements the voting activity and the submission of shareholder proposals in the context of Stewardship.

## Definition

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

In addition to the right to vote, shareholders in many countries also have the right to submit shareholder proposals. In this way, shareholders can draw attention to topics and ask other investors to make an assessment of them through a vote at a shareholders' meeting. Depending on the binding nature of the shareholder proposal, this may lead to an obligation towards the company to actually implement the proposal.

## Objective

Exercising the right to vote is no longer optional, especially within the Dutch context. For example, the Dutch Corporate Governance Code stipulates that institutional investors must publish the voting policy and report on the voting execution.

As an asset manager, PGGM acts as a representative of its clients. We vote at shareholders' meetings in a way that aligns with their goals. Voting is an important tool to achieve these goals. We believe that well-informed voting is crucial for Stewardship and are convinced that this contributes to the creation of shareholder value, both in the short and long term.

Ideally, for PGGM, this means that we will vote at every shareholders' meeting and on all agenda items relating to every company in which we invest. This means that we need to understand the relevant issues at play in a particular company so that we, as an active shareholder, can vote in line with our beliefs and principles regarding sustainable investing.

In addition, voting must be (practically) feasible. With this goal in mind, tailor-made voting guidelines (the 'PGGM Investments Global Voting Guidelines') have been formulated. These voting guidelines are updated and published annually.

Furthermore, PGGM can submit shareholder proposals if engagement has not led to the desired outcome. When a shareholder proposal is successful, it can contribute to risk, return, and/or sustainability.

## Scope

This guideline applies to the mandates of PFZW managed by PGGM.

## Implementation

PGGM is implemented through:

- attending shareholders' meetings (especially in the Netherlands);
- the provision of voting proxies to other shareholders who also speak on behalf of PGGM (in the Netherlands and other countries);
- remote voting (so-called proxy voting);

- submitting shareholder proposals.

Due to the Dutch origin of PGGM and its clients, special attention is paid to visiting the share and depository receipt holders meetings of Dutch companies.

#### Voting process

Obtaining the necessary information to be able to vote in an informed manner, the associated costs, time or other practical constraints, may mean that PGGM cannot reasonably fully achieve its ambition to vote at all shareholders' meetings.

In addition, the percentage of shares for which we can vote is partly influenced by the possible lending of shares. However, positions are never fully lent out. In practice, apart from blocking markets, we will vote for at least 10% of the shares for all companies in which we invest. It should be noted that PGGM can and will recall shares for voting purposes at any time for reasons of its own.

In implementing the voting policy, PGGM uses the services of specialized voting consultancies. PGGM receives voting advice based on its own voting guidelines. Shareholder proposals in the field of the environment, social factors and good corporate governance are assessed and coordinated by internal specialists in the various fields. Where possible, (internal) portfolio managers are also involved in the implementation of the voting policy. In addition, PGGM can rely on the regular voting advice of these voting consultancies.

#### Submission of shareholder proposals

PGGM sees the submission of shareholder proposals as an important means of bringing about change at companies, but does not use this without prior dialogue with the company. The submission of a shareholder proposal takes place in mutual consultation with the client and other parties directly involved.

#### Voting in relation to engagement

A voting instruction can be a reason to enter into discussions with a company. An engagement project can also give rise to the issuing of a certain voting instruction or the submission of a shareholder proposal.

In addition to the implementation of voting, PGGM also strives to further improve the functioning of the voting chain.

#### Accountability

PGGM has a publicly accessible website on which all its voting instructions can be viewed. The annually adopted voting guidelines can also be found on the PGGM website.

# Implementation Guideline Engagement

## Introduction

This Implementation Guideline describes how PGGM implements the engagement activity in the context of Stewardship. Where relevant and possible, engagement is applied to all asset classes. This guideline applies to both PFZW-specific mandates and multi-client funds.

## Definition

PGGM defines engagement as: "a constructive dialogue with companies in the investment portfolio or market participants about their policy or activities, in order to achieve predefined improvements within a predetermined timeframe."

The intended result of engagement activities is a demonstrable change, for example in the behaviour and/or activities of a company or party with which dialogue is conducted.

## Scope

This guideline applies to all PGGM funds and PFZW's mandates managed by PGGM.

The scope of this Implementation Guideline is engagement in PGGM focus areas and engagement in incidents. Guidelines for engagement in incidents are global standards such as the global compact and the OECD Guidelines for Multinational Enterprises (OECD, 2011). In addition, the obligations arising from laws and regulations apply.

Engagement conducted by investment teams with the companies in which they actively invest falls within the scope of this Implementation Guideline unless it is seen as part of regular portfolio management. However, a decision to start an engagement process can be (partly) based on materiality considerations.

## Types of engagement


PGGM distinguishes between two types of engagement:

1. **Corporate engagement** concerns the dialogue with individual companies. The aim is to bring about a desired change in behaviour at the company, in order to give substance to a broader sustainability goal.
2. **Market engagement** is aimed at market participants, such as regulators, supervisors, stock exchange entities and sector organisations. In doing so, PGGM exerts influence on relevant laws and regulations or on the development and/or implementation of voluntary standards. In this way, after successful engagement, the transparency of an entire market in which PGGM invests improves or engagement reduces the (market) risk or increases the comparability with other markets. Particularly in the areas of governance, climate and human rights, it is sometimes most effective to give substance to PGGM's broader goal through market engagement.

## Implementation

PGGM sets up engagement programs to contribute to the focus themes of its clients. This lists the companies or market parties with which dialogue is conducted, including the topics and expected duration.

Each engagement program consists of separate engagement processes, in which we determine which companies we will engage with for each process. We draw up an action plan for each company or party. This plan includes the strategy, timelines, milestones, and an estimate of the resources needed based on the severity of the problem.



Depending on the complexity of the process, PGGM chooses the most appropriate dialogue strategy to achieve the engagement goals. Progress is monitored and, if necessary, the dialogue is intensified by working with other parties or by using additional tools, such as voting. Escalation options are also determined.

Progress is recorded in a database with data on new processes, parties involved, type of engagement, dialogue progress, specific incidents and results achieved.

### **Evaluation**

At the end of each engagement programme, PGGM assesses whether the desired result has been achieved. Engagements are classified as either successful or unsuccessful. Depending on the outcome, PGGM can advise to extend, renew or complete the engagement so that resources can be focused on other themes. If it turns out in the meantime that an engagement is not yielding sufficient results, PGGM may decide to stop it prematurely and use alternative means. If there is insufficient improvement, consideration may be given to no longer investing in the company in question, always weighing up risk, return and sustainability.

## Implementation Guideline Legal Procedures

This Implementation Guideline describes how PGGM conducts active legal proceedings as a shareholder in the context of Stewardship. This is also called shareholder litigation.

### Definition

In this context, PGGM defines shareholder litigation as conducting legal proceedings in its capacity as a shareholder in (listed) companies in which PGGM invests on behalf of its clients, which qualify on the basis of (one of) the objectives below. In cases, this may also involve other financial instruments such as bonds and/or derivatives.

### Objectives

The primary incentive for PGGM to participate in proceedings is to claim damages in court that have been suffered as a result of the actions of (the management of) the company in question. The fiduciary relationship between PGGM and its clients may also entail its active involvement in legal proceedings for reasons other than (only) a claim for damages. This is conceivable, for example, if it is the best way to enforce improvements in corporate governance of investee companies (whether or not as an escalation of an engagement process). The signal effect that PGGM is prepared to enforce certain improvements in court if this cannot be agreed in an amicable manner may also be a reason to opt for active involvement.

PGGM's fiduciary duty may also entail that it initiates a so-called 'derivative suit' – independently or with others; This is an action that shareholders can bring against the company's board, with the primary goal not of obtaining compensation but of enforcing certain (governance) improvements.

### Scope

This guideline applies to the mandates of PFZW managed by PGGM.

## Implementation

### Monitoring

PGGM monitors relevant legal proceedings worldwide and assesses whether participation is in the interest of its clients. Based on this analysis, PGGM advises its clients on participation and the strategy to be followed. For monitoring, PGGM uses a specialised service provider, its network of institutional investors, external lawyers (monitoring counsels) and its own research based on public sources. The Tax, Legal & Regulatory (TL&R) department implements this Implementation Guideline and involves various other departments in its implementation, including engagement specialists, front office, enterprise risk management and compliance. TPM is the owner of this guideline.

### Advice

PGGM assesses possible legal proceedings based on the following factors, among others:

- What is the extent of the losses/damage suffered?
- Feasibility: how are the legal chances of success of the case estimated?
- In what capacity can best be acted in the relevant proceedings?
- What is the expected return in financial terms and - if possible - in terms of corporate governance?
- What are the risks associated with the procedure: a) legal, b) financial, c) process-technical, d) in terms of reputation and image?
- Are there opportunities for cooperation with other investors, and if so, how is that cooperation arranged?





### Decision-making

PGGM considers it important that an informed decision is made whether or not to participate in possible proceedings. It is therefore important, also in light of the fiduciary duties that rest on our clients in this context, to be able to properly motivate and justify why certain decisions have been taken to actively litigate or not. Active legal proceedings are only started after approval by relevant bodies.

### Passieve shareholder litigation

There is a distinction between what we call "active" and "passive" shareholder litigation. By passive shareholder litigation, we mean ensuring that an adequate administrative process is in place to effectively collect financial damages that PGGM's clients are entitled to (pro rata) from collective action settlements and/or administrative fines imposed by regulatory authorities. This proof of claim process is largely administrative in nature.

# Implementation Guideline investment universe design: minimum sustainability standards

## Introduction

This Implementation Guideline describes how PGGM shapes the investment universe by taking into account certain minimum sustainability standards in the field of people and the environment. In doing so, we take a critical look at whether the products and behaviour of companies belong in the investment portfolio and we adjust the investment universe where necessary.

## Definition

When compiling the investment universe, PGGM takes into account the negative effects of companies on people and the environment and sets minimum requirements for the companies in which we invest. By implementing minimum sustainability standards, PGGM defines the investment universe. Investments that meet these standards can be added to the portfolio managed by PGGM.

## Objective

The minimum sustainability standards serve several purposes. First, they ensure that we comply with laws and regulations and our obligations, such as the ban on investment in cluster munitions and the OECD guidelines. In addition, they help manage Sustainability risks and prevent negative externalities from our investment portfolio. Sometimes this is a normative choice, because investments that cause serious damage to people and the environment do not fit in with the identity of PGGM and its clients. Other times, it contributes to responsible risk management within our portfolio. And in some cases, it's a combination of both.

## Scope


This guideline applies to all PGGM funds and PFZW's mandates managed by PGGM.

## Implementation

When determining the minimum sustainability standards, PGGM looks at two elements:

1. **The products and services** that a company supplies: Some of these include legal requirements such as the ban on investments in cluster munitions. We also recognize more product groups that have a major negative impact on people and the environment. For example, we do not invest in companies that are involved in (the production of) tobacco, controversial weapons, coal and fur.
2. **The behaviour of companies and governments**; This involves taking a critical look at the behaviour of the entities in which investments are made on behalf of clients. For example, PGGM does not include government bonds or investments in state-owned companies that do not meet standards of democratic governance and freedom in our investment universe. This is partly provided for by law. Consider, for example, countries that are subject to sanctions from the UN Security Council and/or the EU have no place in the investment portfolio. In addition, PGGM seeks to align with international frameworks, such as the OECD Guidelines for Multinational Enterprises, the UN Global Compact and UN Guiding Principles on Business and Human Rights. Companies that do not deal responsibly with human rights, for example, can run major financial and legal risks.

At least twice a year, PGGM carries out an audit of the product and conduct criteria of (potential) investments. PGGM uses several sources for this: non-governmental organizations (NGOs),



specialized data suppliers, the companies themselves and its own research. Based on all this, PGGM determines the investable universe.

The same minimum sustainability standards apply to the private investment categories. However, in these categories, more limited information is often available in advance about investable entities in the public domain. Portfolio managers in private markets usually have relatively the best information. Therefore, the most effective application of the policy in these categories lies with them. They are responsible for ensuring that no investments are made in organisations that do not meet the set criteria. This requires formal agreements with the (external) manager and careful supervision of compliance and correct application of these agreements.

## Implementation Guideline Capital allocation

### Introduction

This Implementation Guideline describes how PGGM shapes capital allocation, with an emphasis on aligning investments with the SDGs, Paris alignment and realizing positive impact.

### Definition

Through capital allocation, PGGM can both reduce negative effects and increase positive effects on the world. We invest more in companies that make a positive contribution to people and the environment and less in companies that make a negative contribution to people and the environment.

### Objective

By shifting capital to companies that have positive impacts on people and the environment, and to companies that are still in transition, we aim to contribute to a more liveable world and achieve tangible positive results.

### Scope

This guideline applies to all PGGM funds and PFZW's mandates managed by PGGM.

### Implementation

The way in which PGGM implements capital allocation is described in more detail in the implementation guidelines in the areas of:

- Classification and allocation to SDI
- Allocation to investments with a Paris aligned reduction target
- Impact investing

# Implementation guideline for classification and allocation to SDI

## Introduction

This Implementation Guideline describes how PGGM implements the classification and allocation to SDIs.

## Definition

Through capital allocation, we are committed to bringing the investment portfolio increasingly in line with the 17 Sustainable Development Goals of the United Nations, or Sustainable Development Goals (hereinafter: SDGs).

In order to provide insight into the contribution of our clients' investments to the SDGs, and comparable to that of other investors, we have been working with APG, British Columbia Investment Management and Australian Super since 2016 on a methodology (taxonomy and decision rules) to determine the contribution of companies to the SDGs. Together they form the SDI – Asset Owner Platform.

This platform classifies companies based on the percentage of turnover generated from activities linked to one or more SDGs. If available, we calculate with precise turnover percentages. We are working with other institutional investors to further standardise the measurement of SDGs and to provide insight into the contribution. Within this platform, the SDI Taxonomy is continuously updated with new insights. In addition to the data from the SDI AOP, we also use other data providers, including GRESB, to determine whether investments qualify as SDI.

## Objective

We increase the positive social impact of the portfolio by investing more in companies and entities that demonstrably contribute to solving key sustainability issues, as contained in the 17 SDGs. Examples include investments in health (SDG3) and clean energy (SDG7). Where possible, PGGM measures and monitors the (expected) social added value of these investments to the SDGs.

## Scope

This guideline applies to all PGGM funds and PFZW's mandates managed by PGGM.

## Implementation

PGGM is actively looking for the most appropriate and effective way to invest more in SDIs for each investment category, which of course also takes into account the risks and the financial return. To this end, we develop new investment products and work together with external managers, other investors such as pension funds and sovereign wealth funds and science.

At the start of a potential SDI investment, it is determined which sustainability issue the investment addresses, how material the contribution to the solution is and how the investment does this. To this end, PGGM uses the taxonomy developed by PGGM and other asset managers, in which investments are classified according to SDIs on the basis of criteria.

# Implementation Guideline Investing in line with the Paris Agreement

## Introduction

This Implementation Guideline describes how PGGM will allocate to companies that contribute to achieving the goals of the Paris Agreement.

## Definition

Capital allocation and engagement are the tools we use to bring our investment portfolio increasingly in line with the objectives of the Paris Agreement. In doing so, we increase the share of companies in the portfolio that contribute to achieving these goals. The specific requirements depend on the sector and asset class.

## Objective

PGGM directly focuses on the percentage of companies that take action to increase their Paris alignment. The aim is to contribute to limiting global warming. This strategy offers us the flexibility to hold or make investments in companies that are not currently performing optimally, but do have a solid plan to become more sustainable. By aiming for a higher share of Paris alignment in our portfolios, we aim to mitigate the transition risks of these portfolios and increase the portfolio's positive contribution to global climate goals.

## Scope

This guideline applies to all PGGM funds and PFZW's mandates managed by PGGM.

## Implementation

The implementation of this strategy requires a careful and targeted approach per asset class and sector. PGGM applies specific criteria to assess whether companies are acting in line with and contributing to the objectives of the Paris Agreement. This includes monitoring companies' progress in reducing emissions and evaluating their transition plans. In addition, we work closely with external data and rating providers to use robust measurement tools. We actively involve companies in dialogue to accelerate sustainability and, in some cases, apply engagement to drive improvement. Where necessary, we will adjust our allocation by investing less or no longer in companies that are not making sufficient progress or by investing more in companies with clear transition plans.

# Implementation Guideline Impact Investing

## Introduction

This Implementation Guideline describes how PGGM shapes impact investing.

## Definition

We want to invest part of the pension assets to create positive impact on impact themes and to accelerate important transitions. Part of this is making a visible impact in the world through impact investments. These are investments that have the intention of making a positive, measurable impact on people and/or the environment in addition to a financial return. We align with the definition of impact investing of the Global Impact Investing Network (GIIN).

An impact investment contributes to a predetermined change in the world. This positive impact is therefore not a coincidental 'by-product'. The contribution of an investment to the impact goal must be measurable in order to identify concrete positive changes for people and/or the environment.

## Objective

PGGM has specific impact goals on a number of important themes:

- **Climate:** Contributing to the global energy transition.
- **People & health in the Netherlands:** making a visible contribution to the care and welfare transition in the Netherlands.
- **Nature and biodiversity:** contributing to nature restoration and combating biodiversity loss.

## Scope

This guideline applies to all PGGM funds and PFZW's mandates managed by PGGM.

## Implementation

We use the Theory of Change (ToC) as a framework for our impact investments. Prior to the investment, a ToC shows how a company or organisation contributes to the impact goal and what our role is in it. The purpose of a ToC is to show that the impact we claim is intentional, measurable and results directly from the actions of companies in which we invest. A ToC consists of six steps: 1. impact theme, 2. impact goal, 3. outcome, 4. output, 5. activity investment and 6. input. The ToC ensures that we can make our impact concrete

Before a ToC is submitted, the investment teams conduct an impact risk and return analysis, which is included in both the ToC and, in the case of unlisted investments, in the final investment proposal. This analysis is similar to the financial risk-return analysis and determines the credibility of the proposal. The analysis is reviewed by risk analysts (if applicable) and approved by the Chief Investment Officer – Total Portfolio (CIO-TP). Impact risk refers to the probability that the actual impact on people and the environment will deviate from expectations, with investment teams identifying and analysing the most relevant risk indicators. The impact return analysis shall include at least a ToC and a substantiated estimate of the expected output and/or outcomes of the investment, such as an estimate of the avoided CO<sub>2</sub> emissions until 2030, possibly with different scenarios.

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