

Policy Paper Human Rights



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1 Introduction

PGGM is a not-for-profit cooperative pension fund service provider. We offer our clients pension management, asset management and management advice. Our primary task is to provide our clients and their beneficiaries with the best possible pension product. Hence, we first and foremost strive for an optimal risk-adjusted return on our investments. We and our clients believe that a good pension is worth more in a liveable world. That is why investing in a sustainable manner is important to us. We are convinced that integrating Environmental, Social and Governance (ESG) issues leads to improved financial performance in the long run. We believe that financial and social return go hand in hand.

As an organisation, it is our duty to respect human rights. Hence, human rights has been a key focus area for responsible investment for many years.

This policy paper aims to formalise PGGM's commitments regarding human rights, align them with the external, internationally-accepted standards and make them publicly available for our many different stakeholders.

This paper serves three purposes:

1. **Being transparent** to our external stakeholders about PGGM's view on human rights issues;
2. **Communicating our views** to companies we invest in, with regard to human rights issues;
3. **Providing guidance** for our investment teams for integrating human rights issues in investment decisions.

As a pension fund manager, managing approximately EUR 252 billion¹ on behalf of our clients and their approximately 4.4 million beneficiaries, mainly in the healthcare and welfare sector, our main impact on human rights issues is through our investment portfolio. Hence, this paper will focus on how we implement human rights issues in our investment practices.

¹ Year end 2019, see: <https://www.pggm.nl/media/inliix4j/jaarverslag-pggm-nv-2019.pdf>

2 The importance of the human rights

PGGM invests in different assets – government bonds, public and private companies, and projects. Directly or through market indices we are exposed to a large number of entities. This means that our impact on human rights is mainly indirect and is primarily through minority shareholdings and other business relationships all over the world.

PGGM welcomes the guidance and the focus that the UNGPs provide, and uses them as a frame of reference for the way in which we view our responsibility and the responsibility of others with regard to respecting human rights. In 2018, many of our clients signed the Dutch Pension Funds Agreement on Responsible Investment² which is aligned with the UNGPs and OECD guidelines. PGGM significantly contributed to its development on behalf of its clients.

2.1 Beliefs, impact and responsible investment

PGGM seeks to contribute to a society in which economic development is not at the expense of vulnerable groups, future generations and the environment. Through our asset management activities we invest all over the world, both directly and indirectly in nearly all business sectors, through a range of different asset classes and using different investment strategies. This means that through our investments we are exposed to many different aspects of the global economy. Adverse human rights impacts can be a result of, or be linked to, the economic activities of the assets we invest in.

In our largest client's (PFZW) Investment policy 2020-2025, two main focus areas have been defined, based partly on the biggest risk for adverse impact: People & Health and Climate Change. PFZW wants all of their investment to meet a minimum sustainability requirements in which human rights are integrated. In a broader sense, many of the UN Sustainable Development

Goals (SDGs) are relevant from a human rights perspective. Our Responsible Investment Framework gives more detail on how we address the SDGs and how we use the different responsible investment instruments in our investment process.

PGGM is one of the drafting signatories of the UN-backed Principles for Responsible Investment (PRI). The six principles are created by investors, for investors. They are aimed at developing a more sustainable global financial system by: integrating ESG issues in the investment process, being active owners through engagement and voting, asking for more transparency and ESG integration in the investment industry, collaborating towards better implementation of the Principles and reporting investors' activities and progress.

2.2 Materiality and relevance for our investments

We consider human rights and labour rights impacts in our investments because it is our responsibility, but also because it can be a material financial risk for the investments.

We recognize the following risks coming from poor management of human rights and labour rights:

- Operational risks, such as delays to projects, business continuity or losing one's licence to operate;
- Regulatory risks, stemming from a number of existing and new laws, such as the EU's non-financial reporting directive, the UK and Australia's Modern Slavery Act, the US Alien Tort Claims Act, the UK Bribery Act, France's corporate duty of vigilance law, and others can also lead to large fines and harm reputations;
- Reputational risks, drawn by negative media attention, which can lead to loss of customers and divestment campaigns by investors.

² See: <https://www.imvoconvenanten.nl/-/media/imvo/files/pensioenfondsen/pension-funds-agreement.pdf>

Opportunities of an integrated approach versus philanthropy

Apart from risks, we also see opportunities in good management of human rights and labour practices. An active, fully-integrated approach to human rights enables the company to anticipate and manage important risks before they manifest themselves or get out of hand.

An investee company from the food sector, for example, which respects international labour standards and creates a healthy working environment for its employees and suppliers, will have reduced potential for operational and reputational risks and a positive impact for its supply chain.

This is much more valuable than the short-term benefits of, for example, donating food to a local community while not knowing what happens in the supply chain. Additionally, if things still go wrong, the company will be well prepared to deal properly with the damage and respond to the public quickly and more efficiently, remediating the affected stakeholders and safeguarding its reputation and licence to operate.

2.3 Salient human rights issues

The OECD Guidelines as aligned with the UNGPs indicate that human rights due diligence has to go beyond identifying the financially material risks to the company or to investors, and should focus on those human rights that are at risk of the most severe negative impact through the company's activities. The UNGPs term these 'salient' human rights issues.

As a long term investor, we believe that (potential) adverse impact on society and environment poses a (potential) financial risk to businesses in the long run. Our method for screening, prioritizing, preventing or mitigating human rights risks takes both financially material ESG risks and (potential) adverse impacts on society and environment into account.

3 Implementation in the investment process

PGGM acknowledges the complexity of the business environment it operates in and is fully aware of the possibility that certain investments may cause or contribute to adverse human rights impacts. Our ability to manage these and to have influence on mitigating them depends on the investment type and the possibility of using the different responsible investment tools in the investment process. PGGM uses integration of Environmental, Social and Governance (ESG) issues in the investment process, voting, engagement, exclusions and investing in solutions to minimise the negative and maximise the positive impact on human rights in its investment portfolio.

3.1 ESG Integration: selection, due diligence, monitoring, reporting

In order to assess the potential impact and relevance of various human rights issues with respect to a specific investment, PGGM has developed tools and processes which have become part of the screening, due diligence, selection, approval and monitoring process.

Different investment categories and strategies will call for a different approach to integration of human rights issues and will allow for a varying degree of influence. Sometimes PGGM invests in funds which are managed by external asset managers. This means that our influence will be limited to selection, engagement and monitoring of the external managers and making sure that they are integrating environmental and social considerations in their investment process. To do this, PGGM has developed questionnaires for assessment of our external managers' capacity to integrate ESG and our guidelines in their investments. We discuss progress with the laggards and ask for improved practices and reporting.

For more direct investments in companies or assets, we assess the awareness and the ability of the fund managers to monitor different ESG issues including human rights and labour impacts and risks. We evaluate the human rights risks of the company and decide upon an appropriate level of due diligence in the pre-investment period. Where there is a high level of risk, we can decide not to proceed with the investment. We use tools to ascertain potential risk and we use reporting templates

for obtaining information. Furthermore, we collaborate with others to improve standards and share knowledge. During the lifetime of the investment, where relevant, we agree on action points and expectations to improve or set up necessary management systems.

For determining relevant issues we seek the guidance from the International Financial Corporation/World Bank Performance Standards, the UN Global Compact, the Sustainability Accounting Standards Board (SASB), the UNGP Reporting Framework and others.

Larger investments and the ones which are flagged as high ESG risk are discussed at our Investment Committee level, which then has to sign off on the particular investment. Where relevant, we incorporate the expectations into contractual agreements. For example, by requesting that fund managers work in accordance with the UNGPs, OECD Guidelines or the UN Global Compact.

3.2 Active ownership: engagement and voting

Conducting a dialogue and asking for change on ESG issues, including human rights and labour practices, is one of the tools PGGM uses to fulfil its responsibility as an active shareholder. PGGM uses its influence to achieve improvements in the ESG field, thereby contributing to the quality, sustainability and continuity of companies and markets. PFGW does so in the belief that this ultimately contributes to a better social and financial return on investments for our beneficiaries.

Our engagement activities are intended to deliver a demonstrable change in the behaviour and activities of a company or party with which the dialogue is conducted. PGGM engages individually and collaboratively with other investors on the selected themes. The human rights and labour engagement focuses on asking companies to improve standards, manage risks and remedy severe violations of human rights and labour standards. We engage on potential and actual negative impacts on human rights when they are material and when they are salient.

For example, we ask the companies that operate in high risk sectors to implement the UNGPs in their own business, but also to improve labour practices in their supply chains. In the event of actual adverse impacts, severe and repeated violations of human rights which could be deemed to be a violation of the UN Global Compact or the OECD Guidelines, PGGM will demand from the company to stop the violation, make sure that there is improvement in the management systems and provide remedy.

Prioritizing human rights: high risk sectors, vulnerable groups

Due to the large amount of companies we are invested in all around the world and the limited capacity for engagement, prioritization is necessary but also challenging. Human rights are closely linked to moral and cultural differences, which makes having an objective position more difficult. To be objective in our process for prioritization we use available data from external providers to screen for actual and potential adverse impact in our portfolio. For potential adverse impact we also involve our clients and their stakeholders to further sharpen our focus.

High-risk sectors

We include specific attention to the high-risk sectors, such as the extractives industry, the defense industry, the supply chain of textiles and food and beverage industries. We follow international guidelines for engagement and communicate expectations to the companies. Examples include expectation for mining companies to include the UNGPs in their processes, expectations of the food and beverage and retail sector to improve their labour practices in their supply chain and report on the outcomes. We use data to determine which sectors are the most relevant for engagement.

Vulnerable groups

We believe that looking at vulnerable groups and how their rights are treated is a good test for the extent to which human rights are respected. We are considering the vulnerable groups: women, children and migrants in our due diligence in the more direct investments.

3.3 Exclusions

PGGM does not wish to invest in products that do not match with the identity of our clients and their beneficiaries. This is why we do not invest in companies that are linked to the production of controversial weapons, tobacco, thermal coal and tar sands.

3.4 Investing in solutions

Apart from managing financially material risks and minimising the negative impact on human rights through our investments, we aim to expand our positive impact on a number of important themes. We do this by investing in companies that have products or services which provide solutions to some of the world's most pressing challenges that will undoubtedly impact many people, with a focus on People & Health and Climate Change. We are aware that the expected positive impact cannot offset the potential negative impact on human rights, including labour rights, and therefore ESG topics including human rights are a part of the due diligence process for these investments. The most important framework for creating positive impact is the UN Sustainable Development Goals (SDGs). Compared to the UNGPs, which is a global standard and a tool we expect businesses to use for human rights risk management, the SDGs framework provides a list of actionable items that should make collaboration towards the vision of a better world more feasible.

PGGM collaborates with peers to understand what SDGs can mean for our investments. We look for opportunities to make a positive contribution to economic, environmental and social progress with a view to achieving sustainable development and a better world. In looking for positive impact, we remain aware that this cannot offset our own and the responsibility of our business relationships to address any adverse impact they may be causing or contributing to.

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