

# PGGM Responsible Investment in Systematic Equity Strategies

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## 1. Introduction

On behalf of its clients, PGGM Investments manages several public equity mandates, including both fundamentally driven mandates as well as systematic investment strategies. Together these mandates form a significant part of the total assets under management of PGGM. PGGM recognizes that 1) through the companies in which PGGM invests on behalf of its clients it has a significant impact on the environment and broader society as a whole, and 2) as a sizeable long-term equity investor PGGM has the opportunity to address environmental, social and governance (ESG) related issues directly with the executive management of a broad variety of companies. This document outlines how PGGM manages ESG related aspects with regards to its investments managed by the Systematic Equity Strategies (SES) team. As there are material differences between the quantitatively and fundamentally driven mandates managed by PGGM, both will be dealt with on a separate basis.

These guidelines are part of the [PGGM Investments' Responsible Investment Framework](#) and its implementation guidelines. This framework is a more detailed elaboration of the [PGGM Beliefs and Foundations for Responsible Investment](#). In addition, the PGGM Exclusions are applicable to all public equity mandates managed by PGGM.

The balance of this document provides an overview of how PGGM views ESG aspects within public equity, how these aspects are incorporated into the decision-making process, and how identified ESG risks are managed.

The guidelines covered in this document are applicable for investments done as part of the systematically driven public equity investments managed internally by PGGM Investments' SES team. The guidelines are effective as of June 2018.

With the introduction of these guidelines PGGM Investments aims to improve transparency and governance. PGGM follows relevant developments closely and will update the guidelines when necessary. This policy does not confer any rights to any third parties.

## 2. Vision

PGGM recognizes that over the long term ESG factors can have a material impact on the financial performance of publicly listed companies. With its long-term investment horizon PGGM views it as its responsibility to capture the values and mitigate the associated risks related to company-specific ESG factors.

In line with its investment philosophy, ESG integration within the systematic equity strategies team is focused on systematically implementing ESG factors.

In its handling of ESG issues PGGM defines three categories of instruments for responsible investment (figure 1).

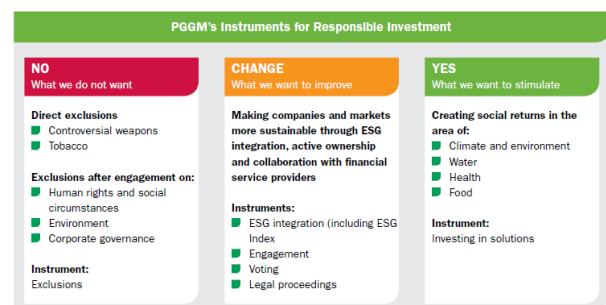


Figure 1: Instruments for responsible investment

The following three elements in the first two pillars are especially relevant for the PGGM SES team:

- First, PGGM defines a cross-organizational exclusion list of companies it does not want to invest in. The SES team is bound by this list.
- Second, the SES team explores possibilities for systematic ESG integration in multifactor models. The team seeks to improve the ESG profile of the portfolio, while at least maintaining the desired level of exposure to its main factors.
- Third, through active ownership such as engagement, voting and legal proceedings PGGM aims for positive change.

In consultation with our clients, PGGM has selected seven social areas of focus for our responsible investment activities. These areas of focus are depicted in figure 2:



Figure 2: The seven social areas of focus

Climate change is a focus area of PGGM which finds a direct implementation in the systematic equity strategies through a reduction of the footprint of the investments. Through active ownership, such as engagement and voting, PGGM aims to contribute to good corporate governance and safeguarding human rights.

### 3. Objective

The objective of these guidelines is to ensure transparency and increase public awareness of how PGGM approaches and handles ESG issues in relation to public equities on behalf of its clients.

The primary goal of the systematic equity mandates PGGM manages internally on behalf of its clients is to generate a satisfactory risk-adjusted financial return over the prospective life of the investment. In addition to that, PGGM engages in research on ESG factors to assess their potential to directly add value to the investment portfolio and to consider their potential to improve the ESG profile of the systematic equity strategies on top of their financial characteristics.

Insofar that portfolio companies are associated with material ESG issues PGGM will seek to engage with executive management and encourage risk mitigation and process improvements towards an industry's best practices in terms of ESG processes.

Section 4 provides additional details on how PGGM aims to reach its stated objective.

### 4. Implementation

PGGM integrates ESG analysis into the investment decision-making process of its systematic equity strategies through the following steps:

#### Exclusion of what we do not want

PGGM wants to avoid making investments that are not appropriate for us or our clients. That is why we do not invest in controversial weapons or in the production of tobacco. We can also exclude investments in

companies and/or countries (government bonds) if they violate human rights or cause serious environmental pollution, for instance.

#### Systematic ESG integration

The SES team explores the possibilities for ESG integration in multifactor models. Candidate ESG factors are assessed based on their relationships to other factors in the model, their potential to add value to the investment process, and their potential to improve the ESG profile of the portfolio on top of its financial characteristics. Depending on the outcome of such an evaluation, ESG factors are considered for addition to the model. Good and reliable data are naturally the challenge and key to this effort.

#### Climate change

We aim to counteract climate change by reducing the CO<sub>2</sub> emissions of our investments. Since 2016, PGGM has been selling shares of the most CO<sub>2</sub>-intensive companies in the most polluting sectors: utilities, energy and materials. In 2017 PGGM has started with the implementation of CO<sub>2</sub> reduction in its systematic equity strategies, with the aim of halving the CO<sub>2</sub> footprint of the mandate by 2020. To this end, a linear scheme has been prepared in order to achieve a reduction of 50% of the CO<sub>2</sub> emission compared to the starting point.

#### Active ownership

The aim of active ownership is to exert influence and move a portfolio company towards its industry's best practices. To that end, PGGM implements the following:

#### Voting

The voting right is one of the most important rights of a shareholder. That is why we vote based on our own [guidelines](#) and opinions at shareholder meetings. Consequently, we contribute to good corporate governance. PGGM explains its voting per company via a special website, 'Proxy voting', with search functionality.

#### Engagement

As an investor, we see it as our responsibility to engage companies and market parties with the impact of their policy and activities. With this, we try to realize improvements relating to ESG based on our view that this ultimately contributes to a better society as well as financial returns on our investments.

#### Legal proceedings

In order to recover investment losses and enforce good corporate governance, PGGM conducts legal proceedings for its clients when necessary. We do that as a shareholder in listed companies, both in the Netherlands and in other countries.

#### Transparency through the Responsible Investment annual reports

We attach great importance to clear reporting and

transparency with regard to our activities in the field of responsible investment. For more information we refer to the annual reports published by PGGM Investments.

For more information on PGGM Investments' Responsible Investment Implementation Framework please contact our Responsible Investment department, +31 (0)30 277 99 11, or visit our website [www.pggm.com](http://www.pggm.com)

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