

PGGM Responsible Investment in Real Estate

January 2018



1. Introduction

On behalf of its clients, PGGM Investments manages several real estate investment portfolios structured around listed real estate and private real estate. PGGM Investments recognizes the impact real estate may have on the environment and society. This guideline addresses PGGM's management of environmental, social and governance (ESG) issues with regard to real estate investments.

The guideline is part of PGGM Investments' Responsible Investment Framework and its implementation guidelines. These guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment, which we share with our clients. Furthermore, the Implementation Guideline on Exclusions is applicable to real estate investments.

The scope of this guideline covers both the PGGM listed and the private real estate portfolios. Differences in terms of implementation are addressed in the second part of this document. This guideline will become effective as of January 2018.

2. PGGM's Beliefs

PGGM invests on behalf of pension funds. Responsible investments enable our clients to realize a valuable future for their beneficiaries. We are convinced that financial and social returns go hand-in-hand. Through our activities in the field of responsible investment, PGGM provides responsible, stable and good investment results that are consistent with our clients' ambitions for their pensions. Responsible investment is therefore an integral part of our investment approach. It means that we consciously take account of environmental, social and governance (ESG) factors in our investment processes. PGGM has developed three beliefs for Responsible Investment:

✓ **Responsible investment pays off**

PGGM firmly believes that sustainability factors materially influence the risk-return profile of the investments and that this influence will steadily increase in the future.

✓ **No good and stable return in the long term without sustainable development**

PGGM firmly believes that sustainable development is necessary in order to generate good and stable investment returns for our clients in the long term.

✓ **The driving force of capital**

PGGM firmly believes that by leveraging the driving force of investments for our clients it can and must make a positive contribution to sustainable development through its investment decisions.

3. Instruments for Responsible Investment

PGGM applies six instruments in support of the implementation of responsible investment activities, as can be seen in figure 1.

| PGGM's Instruments for Responsible Investment | | |
|---|--|---|
| NO What we do not want | CHANGE What we want to improve | YES What we want to stimulate |
| <p>Direct exclusions:</p> <ul style="list-style-type: none"> Controversial weapons Tobacco <p>Exclusions after engagement on:</p> <ul style="list-style-type: none"> Human rights and social circumstances Environment Corporate governance <p>Instrument: Exclusions</p> | <p>Making companies and markets more sustainable through ESG integration, active ownership and collaboration with financial service providers</p> <p>Instruments:</p> <ul style="list-style-type: none"> ESG integration (including ESG Index) Engagement Voting Legal proceedings | <p>Creating societal returns in the area of:</p> <ul style="list-style-type: none"> Climate and environment Water Health Food <p>Instrument: Investing in Solutions</p> |

Figure 1: Examples of instruments for Responsible investment

We apply these instruments for the purpose of: (1) contributing to social solutions; (2) encouraging companies in a position to make ESG improvements to do so; and (3) excluding companies that carry out activities that we do not want to support.

4. Implementation

ESG Vision

We believe that ESG factors have a material impact on the financial performance of our real estate portfolios. Our belief is that sustainability pays off, in terms of returns as well as risks. Hence, it is our responsibility to capture the value and mitigate the risks related to ESG factors. Therefore ESG factors are integrated into our decision-making process.

ESG Focus

✓ E (Environment)

Climate change / energy efficiency

We are focusing our efforts on climate change, as real estate is energy-intensive and causes a significant amount of global CO₂-emissions. Energy efficiency and urban regeneration are becoming more important in light of shifting tenant and investor preferences, as well as in light of stricter environmental legislation for both existing and new real estate.

✓ S (Social)

Human rights and labor conditions

In the development, construction and operating phase, we strive to avoid or mitigate issues regarding human rights and work conditions at all time. Therefore, we have incorporated the “S” into our due diligence, engagement and reporting requirements. PGGM has a human rights policy which provides more details on the international standards that we work towards.

✓ G (Governance)

Corporate governance and fund governance

We believe that good governance in real estate reduces the investment risk. We demand a strong governance structure of our investments and expect managers and companies to be completely transparent with us. All relevant information regarding the investments should be accessible to its investors. We require direct access to management. At all times it should be clear to the shareholders what the strategy of the investments is regarding (non-)financial information, regional allocation, sector allocation and risk appetite. Within the governance structure of private investments, PGGM wants to have a position which allows us to influence decisions such as the approval of business plans, financing, and

buying or selling assets. PGGM has zero tolerance for corruption. We respect national laws and follow the guidance from Transparency International and other organizations like the UN on anti-bribery and corruption policies. We expect from our business partners and investee companies to do the same.

ESG Integration into investment process

Selection phase

We require managers to have a clear vision and policy on ESG issues. ESG is an important part of our due diligence and manager/company selection process. We always include ESG key performance indicators, best practice reporting requirements and participation in relevant benchmarks on ESG in our contracts with managers and partners.

Monitoring phase

We monitor our investments on an ongoing basis and we periodically meet with our managers. ESG is an important part of our reporting requirements and the periodic review meetings. We use assessment and benchmarking results on ESG as input for management meetings, as these are a good starting point for discussions on ESG issues.

ESG impact on portfolio

ESG integration into our investment process leads to continuous improvements of the sustainability of our real estate portfolio, for example through increased transparency and reduction targets on energy consumption. It is our belief this will pay off, in terms of enhanced return and risk mitigation (e.g. in relation to tighter ESG regulation) of our portfolio.

Responsible Investment (RI) tools

Engagement

We will actively explain our requirements and discuss our transparency needs regarding ESG issues. The Global Real Estate Sustainability Benchmark (GRESB) and other data sources are used as engagement tools. Continuous dialogue with portfolio companies remains the most important tool to improve ESG-factors. On the listed side we engage with companies on important issues across ESG including remuneration, board diversity, succession planning, climate change impacts and human rights and labor practices where relevant.

Voting

We have an active voting policy in which we ensure continuous governance improvement. Our active voting strategy in which we engage with listed companies on intended AGM resolutions allows us to modify and consequently improve governance. PGGM applies customized voting principles across all its listed equities, written down in our PGGM Voting Guidelines.

ESG-guidance for companies

In the European region, PGGM initiated and co-chairs the Investment Advisory Committee (IAC), which is an investor-only committee for peer engagement, providing guidance to the companies in terms of ESG improvements. By bringing the largest institutional investors together in the committee, we are able to address issues with the support of a large ownership base. PGGM also helped create and is a member of the Asian equivalent, thus creating a global platform for ESG improvement.

Exclusions

PGGM's exclusion list consists of those countries that are submitted to sanctions of the UN Safety Council and / or the European Union. We do not invest in countries that are on PGGM's exclusion list. As these countries tend not to be part of our investable universe, this does not have any material effect for the real estate portfolio.

Investing in Solutions

Investments in solutions for social development are clearly defined investments that not only contribute to the portfolio's financial return, but are also intended to generate social and/or environmental added value. PGGM invests in solutions for climate change, water scarcity, healthcare and food security. We are actively looking for real estate investments in solutions in climate change and healthcare. These are often value-add strategies buying assets in order to make them more sustainable in terms of energy consumption, GHG emissions, water consumption and waste diversion. In other strategies, we invest in large-scale urban redevelopment projects, often in public-private partnerships.

ESG data sources

GRESB

The Global Real Estate Sustainability Benchmark (GRESB) has become the global industry standard for the assessment of ESG performance of real estate portfolios. It was founded in 2009 by and for investors such as PGGM that believe insight into sustainability performance can enhance the risk-return profile of real estate investments. We require our private real estate managers to participate in GRESB. We use it throughout our real estate portfolio as an engagement tool to make sure our investments continuously become more sustainable. This does not only pertain to policy and transparency, but also in terms of implementation, measurement and reduction of energy consumption, GHG emissions, water consumption and waste diversion.

GeoPhy

This tool provides insights into quality and climate-related data on asset level, such as energy labels. We started working with GeoPhy in 2015 in order to map our worldwide real estate portfolio in terms of quality and CO₂-emissions. We use their technology and business analytics to improve insight into the CO₂-footprint of our portfolio as a whole, as well as on the asset level. In addition, the data analysis platform can be used to compare our CO₂-footprint to those of local real estate markets. By making assets comparable, GeoPhy gives us insight into our relative performance. We use the data to continuously assess and improve the quality and sustainability of our portfolio.

Sustainability Reporting Guidelines

In the private space, our managers / partners are required to comply with both the mandatory and the best practice INREV sustainability reporting guidelines, which include reporting on ESG plans at the asset level, tenant engagement and energy consumption of tenant-controlled areas. We actively contribute to developing DD questionnaires for the industry, such as for INREV and ANREV. The INREV sustainability reporting guidelines include references to other relevant industry standards such as GRESB, GRI and EPRA.

In the listed space, we contribute to the further development and adherence to the sustainability best practices recommendations (sBPRs). These include key information on essential sustainability information including energy consumption, water and waste use and CO₂-emissions. We engage with companies to push for compliance on these key metrics.

CDP and TCFD

We use data from the Carbon Disclosure Project (CDP) to improve the granularity of information on CO₂-emissions. Furthermore, PGGM supports and plays an active role in the Task force on Climate-Related Financial Disclosures (TCFD). Through this effort, we actively strive for the release of key information regarding the environmental impact of companies within the portfolio.

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