

Responsible Investment in Infrastructure

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1. Introduction

As a long-term investor, PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) is committed to investing responsibly. PGGM manages its clients' Infrastructure investments in order to contribute towards a stable pension for their participants while also taking into consideration its impact on the world. PGGM recognizes that environmental, social, and governance (ESG) factors have a material impact on the financial performance of the portfolio, especially in the longer term. As such, integrating ESG issues into investment analysis and decision-making processes is part of its fiduciary duty.

Through the predominantly direct investment and active asset management strategy PGGM Infrastructure team is well positioned to steer and challenge its investee companies to adapt more responsible business practices in the environmental, social, and governance areas.

PGGM Infrastructure's investee companies provide reliable, affordable and sustainable infrastructure, which is essential for any modern society to thrive in the long term. This means that PGGM Infrastructure is in a unique position to contribute to the sustainable investment ambition of our clients in a direct and effective way.

This guideline addresses PGGM's management of ESG issues with regard to Infrastructure. The guideline is a further refinement of [PGGM's Responsible Investment Framework](#) and its implementation guidelines and the relevant fund prospectus and ancillary documentation. In addition, the obligations arising from compliance with legislation and regulations apply. The guidelines cover all investments made by PGGM Infrastructure, effective as of 1 January 2021.

2. Investment strategy & approach

PGGM Infrastructure aims to deliver attractive risk-adjusted returns and the non-financial investment goals of its clients through significant minority or majority ownership in investee companies operating in 4 major infrastructure sectors: transportation, energy & utilities communication and social infrastructure such as education and healthcare.

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PGGM Infrastructure believes that financially and organisationally healthy companies are more resilient: long-term investment horizons require conviction and commitment to ensure infrastructure investments are able to successfully adapt to the changing environment.

As a long-term investment manager, PGGM Infrastructure holds a stake in the long-term business strategy of the portfolio companies. To manage ESG risks and take advantage of ESG opportunities, PGGM Infrastructure initiates, as necessary, transformation in response to long term trends, such as energy transition, climate change adaptation, demographic and social shifts, need for increasing connectivity and accelerating pace of technological change.

Portfolio companies are analysed and monitored on their strategic and financial merits as well as their ESG performance. The latter is expected to help reduce investment and reputational risks or increase (expected) returns of the portfolio.

The engaged shareholder strategy underpinned by suitable governance rights presents a positive opportunity for sustainable business practices which are viewed as the social "license to operate". Sustainable and healthy companies are also more resilient: long-term investment horizons require conviction and commitment to ensure infrastructure investments are able to successfully adapt to the changing environment.

By having in place a transparent responsible investment guideline for Infrastructure, as further outlined in this document, and by actively taking into account the integration of ESG risks in investment decisions, the Infrastructure team believes that it offers a positive contribution that is best practice and in line with the clients' stated preferences and PGGM Infrastructure mandate.

The Infrastructure team aims is to be fully compliant with obligations arising from legislation and regulations. The relevant standards, codes of conduct or (inter)national initiatives or legislation that apply and have an impact on implementation are discussed below. For more detailed information please see [PGGM Investments website](#).

3. Implementation

PGGM defines ESG integration as systematically taking into account those ESG factors that have a material effect on investment risk and return. Across its entire portfolio PGGM uses the Materiality Map of the Sustainable Accounting Standards Board (SASB) as the framework to identify material ESG issues per sector. Similarly, Infrastructure takes the SASB Materiality Map into account when analysing ESG risks and opportunities in the investment process.

PGGM Infrastructure considers ESG factors to be essential due diligence inputs when evaluating long-term viability of investments in companies and projects focusing on infrastructure, their geographic markets, industries and business models.

The ESG factors are important not only at the investment decision-making process, but at all stages of the investment process through ownership.

(1) Pre-investment stage

ESG risks are defined as risks for the financial returns from material ESG factors. If it is concluded that the potential investment opportunity should be pursued an ESG risk assessment is completed to gauge in a structured way the “outside-in” view on the ESG risks of the potential investment. PGGM Infrastructure team performs pre-investment due diligence and assesses for each of the potential investee companies the potential for sustainability improvement against level of influence. The Investment Committee considers these factors in the investment decision process. The results of the assessment are captured and documented in the ESG Quickscan that is part of the investment decision process. The Infrastructure team is increasingly focusing

on resilience and monitors exposure to severe weather conditions or environmental hazards.

The PGGM Investment Committees consider the ESG Quickscan to assess material ESG risks to the potential investee company.

This analysis is part of the decision-making process alongside investment risk/return. The ESG Quickscan contains not only environmental but also social issues in relation to stakeholders, incl. employees, customers and community on issues such as potential for conflict in the region, the labor standards and working conditions in the region, and the relationship with trade unions.

Transitional and physical risks deriving from climate change are considered a sub-set of ESG risks and are therefore covered by the ESG integration process of Infrastructure. Specifically, PGGM Infrastructure has partnered with a major insurance company to identify exposure to physical climate risks.

Within its investable universe PGGM Infrastructure screens the potential investments on suitability before proceeding with the investment process and rejects investments that are considered to be fundamentally misaligned with our investment beliefs and sustainability principles. This assessment is made by the investment team using publicly and privately available information and can range from the business model (e.g. significant reliance on coal-fired power generation), significant reputation concerns about the future co-shareholder(s), persistent poor public health & safety track record or past incidents of unethical practices. An investment opportunity can be rejected if we see no opportunity to implement improvements to mitigate these risks.



Figure 1 Overview of the stages of the investment process in PGGM Infrastructure

(2) Post-investment on boarding

Consistent and reliable ESG data is paramount for assessing and managing ESG risks. During the on-boarding process PGGM Infrastructure assesses the quality/scope of the ESG data collected and reported by each investee company to the Board of Directors; any gaps and improvement actions are identified. Since its inception, PGGM Infrastructure participates in the [GRESB Infrastructure benchmark](#) for the purposes of ESG peer comparison and each investee company is encouraged to participate in the GRESB Infrastructure benchmark. ESG factors are also a fixed part of the monitoring discussions and management is asked to devote attention to this, particularly if performance is less than satisfactory.

(3) Ongoing stewardship and investment management

The company-specific objectives are reviewed annually and changes are reported quarterly and the exposure to ESG risks is monitored quarterly.

(1), (2) and (3)(a) apply to all new investments.

The key ESG risks that can materially impact value of the investments and hence are given particular attention during the whole investment process, including ownership phase, stem from lack of or failure to ensure the following:

Good governance:

- Responsible and ethical business practices and culture instilled as “tone at the top”
- Effective critical incident management

Socially responsibility:

- Compliance with statutory and technical health and safety requirements
- Culture focused on healthy and safe working environment
- Employee engagement, diversity and inclusion
- Respect for human rights and community dialogue
- Personal data protection
- Access and reliability of the infrastructure to the public (where applicable)

Reducing environmental impact:

- Location-driven physical climate change risk
- Regulatory measures/penalties for non-compliance with standards and regulations e.g. air quality or water and wastewater standards
- Failure to adapt to new climate-change driven constraints, e.g. net zero carbon

Although individual incidents cannot be ruled out, PGGM Infrastructure carefully considers, monitors and actively engages with the Board of Directors to mitigate these risks. Because of constant attention and engagement at the level of Board of Directors probability of a significant structured deterioration of the portfolio value due to ESG risks is considered limited.

PGGM Infrastructure does not have sufficient data yet to quantify positive correlation between sustainability and long-term value development. PGGM Infrastructure invests based on the conviction that a pro-active focus on socially responsible business practices and sustainability makes infrastructure businesses more valuable and less exposed to risks, such as stranded asset risk or reputational risk. It is also a key factor to remain attractive to talented employees and leverage opportunities for business development. Due to the private nature of infrastructure investments, reliable third-party ESG ratings are not available and hence not considered by PGGM Infrastructure.

Although PGGM Infrastructure acts as a long-term investor, investments can be considered for early divestment if it no longer fits into the portfolio or if the long term risk profile deteriorates.

3.b Impact

In addition to a better-performing portfolio, PGGM Infrastructure seeks to enhance the positive impact of its investments and to minimize adverse impacts even when they do not directly affect the financial performance.

1. Positive impact: investing in the SDGs

In 2016 PGGM and APG defined Sustainable Development Investments (SDIs) as “investments that yield market-rate financial returns while generating a positive social and/or environmental impact” (i.e. contribute to the Sustainable Development Goals). In 2020 Australian Super, British Columbia Investment Management Corporation joined APG and PGGM in the [SDI-Asset Owner Platform](#) which owns a taxonomy of products and services (solutions) that contribute to the SDGs. With a set of decision rules the taxonomy forms the basis for the classification of investments as ‘SDI’.

PGGM main client’s ambition is to increase the SDI volume to 20% of the total portfolio by 2025. The effort to measure portfolio companies’ real-world impact, however, is currently limited to seven focus SDGs: #2 (zero hunger), #3 (good health and wellbeing), #6 (clean water and sanitation), #7 (affordable and clean energy), #11 (sustainable cities and communities), #12 (responsible consumption and production) and #13 (climate action). To estimate and monitor the impact on these focus SDGs, the indicators suggested by the [Working Group on SDG impact measurement of the DNB-facilitated Sustainable Finance Platform](#) are used.

PGGM Infrastructure aims to contribute to this ambition with at least 20%] of the PGGM Infrastructure portfolio classified as SDI by end 2025. The investee companies contribute with their products and services to the SDGs. As a significant shareholder with meaningful governance for several investee companies, we contribute to conduct based SDGs as well, for example to SDG5 (Gender Equality).

Impact related considerations are integrated throughout the investment process as follows:

(1) Pre-investment stage

PGGM Infrastructure does not seek to specifically target companies with leading sustainability practices or low carbon footprint. Instead, the team seeks to select potential investee companies based on their risk/return profile and potential to enhance value by improving on i.e. ESG profile. The latter includes meaningful and realistic improvements across our ESG objectives (e.g. implementing environmental management system or reducing carbon intensity under PGGM ownership).

Processes for SDI classification: The SDI classification potential shall be incorporated in the ESG Quickscan and the data required for verification of classification shall be acquired in the on-boarding phase.

(2) Post investment phase

If PGGM Infrastructure is successful in making the investment, the on-boarding process commences. Within the first 6 months since start of ownership, each new investee company is on-boarded in the portfolio by PGGM Infrastructure team, whereby among others the previous assumptions about positive and negative sustainability impact made during the investment decision are re-confirmed. If not yet the case, the Sustainability strategy is included on the Board of Directors. As part of this process, the resulting risks, opportunities and improvement initiatives are further fine-tuned and conclusions and recommendations are shared with the Investment Committee and in the Board of Directors. If PGGM does not have a formal governance the team engages in dialogue with other co-shareholders and the executive team to achieve results

(3) Ongoing stewardship

As a long-term owner of investee companies PGGM Infrastructure aims to deliver improvement across all sustainability objectives at portfolio level. The concrete results per investee company are determined based on the type, scope and organizational maturity of the business. For instance, for investee companies with significant capex programs the team aims to implement a capital allocation process to steer capital towards more sustainable choices. PGGM Infrastructure actively

approaches and works closely with executive management teams of the investee companies, with the Boards of Directors and with other shareholders to build support coalition and execute sustainability improvements. Our objective is to build better businesses that are able to sustain their value in the long term by dynamically managing and mitigating ESG risks while producing verifiable evidence of a positive contribution to the UN SDGs.

(1), (2) apply to all new investments. In addition, step (3) applies for all direct investments in the portfolio where PGGM Infrastructure can exercise a significant level of influence, which involves a degree of control over the Board decisions.

2. Minimise negative impact

The social and environmental impact of the capital entrusted to PGGM by its clients is significant. PGGM can stimulate a positive contribution to a sustainable world and has the responsibility to minimise adverse impact. Adverse impacts refer to negative impacts (harm) to individuals, workers, communities and the environment.

Each investee company reports adverse impact through the annual GRESB Infrastructure assessments. In addition, the executive management and Board of Directors at the portfolio company, if applicable, are responsible to oversee reporting on all material breaches and incidents, including health & safety, industrial disputes, legal and regulatory compliance and environmental pollution.

As from 1 January 2022 at the latest, PGGM shall avoid new investments in companies that are in very severe violation of the OECD Guidelines for Multinational Enterprises (hereinafter OECD guidelines) and/or the UN Global Compact principles. When feasible, PGGM shall undertake best efforts to divest existing exposures to these companies all together and/or shall engage with the companies, or a selection thereof, that are in (very) severe violation of the OECD guidelines and/or the UN Global Compact principles.

Based on its high likelihood and severity, climate change as a driver of adverse impact its prioritized. Clients of PGGM's have committed themselves to the [Dutch Climate agreement](#)¹ and to the [Paris Climate Agreement](#) to align policies consistent with the objective to limit the global temperature rise to a maximum of 1.5 °C. The ambition is to have a climate neutral investment portfolio by 2050 - in line with the ambition of the European Union and the Paris objectives.

1 In Dutch "Klimaataakkoord"

PGGM Infrastructure commits to this ambition and actively seeks to establish achievable targets for investee companies. Moreover, the team is committed to gather data to allow for the measurement of portfolio emissions.

3.c Stewardship (engagement, voting, shareholder litigation)

PGGM Infrastructure actively uses its influence as a shareholder to achieve improvements in the ESG field, thereby contributing to the quality, sustainability and continuity of companies and markets. PGGM sees it as its responsibility to engage with market parties and companies about their policies and activities. In this way, it attempts to realise ESG-related improvements. If PGGM is also shareholder in a specific company it applies customized voting principles, written down in the [PGGM Voting Guidelines](#).

As an influential shareholder, PGGM Infrastructure has typically at least one seat in the Board of Directors (or the Supervisory Board²) and leverages its influence in the Board of Directors, by shaping strategic direction of the business and by articulation of risk appetite. The stewardship goals are achieved through exercise of governance rights, such as voting on Board and shareholders' resolutions, regular dialogue with executive teams, and participation in the Board through non-executive directors appointed by PGGM. Moreover, leverage points include initiating points for the Board agenda, voting on business plan and CEO appointment.

PGGM Infrastructure Investments actively uses its influence as fund manager/significant business owner to achieve improvements across ESG objectives. It engages with companies on their policies and activities as well as with the broader private equity market on ESG standards.

As direct shareholders we continuously monitor the development of our investments through the formal reporting and governance forums, such as Board, Board committees and shareholder meeting as well as regular contact and dialogue with the executive teams. Insights acquired through these channels informs our assessment of the risk-return profile of an investment as part of our ongoing portfolio monitoring.

To monitor progress/effectiveness of engagement on ESG issues we review quarterly progress on initiatives and changes delivered on a pre-defined set of metrics across Sustainability objectives. Moreover, we use the annual GRESB Infrastructure benchmark to monitor the trend across various ESG parameters related to leadership and performance and the relative position of the portfolio company relative to its peer group.

² Depending on the jurisdiction

PGGM encourages collaborative dialogue by portfolio companies with the stakeholders to identify and keep aware on the key ESG issues. As an engaged and long-term investor and business owner, PGGM Infrastructure cooperates across a broad range of parties to shape sector approach to ESG and sustainability, including co-shareholders (often also public or occupational funds), regulators and public entities (e.g. grantors of transportation and social infrastructure concessions), debt providers, non-financial information auditors.

PGGM Infrastructure participates in the Standards Board for GRESB Infrastructure to improve the GRESB Standards, infrastructure investment associations, and in relevant sector-wide forums, e.g. dedicated to promoting Diversity & Inclusion such as i.e. Women in Infrastructure.

3.d Exclusion

The [PGGM Implementation Guidelines on Exclusion](#) are applicable to investments in all asset classes, including Infrastructure. The PGGM-wide product-based Exclusion List consists of companies engaged in controversial weapons, tobacco, tar sands as well as thermal coal utilities and mining companies.

By excluding companies on the basis of the above elements, PGGM seeks to prevent PGGM-managed investments contributing financially to practices incompatible with the standards and values of PGGM, its clients and their beneficiaries.

4. Transparency

Each quarter the Infrastructure team provides an update of its responsible investment activities in the clients' quarterly report. This includes information regarding stewardship activities, impact investing and integration of ESG-factors in its investment decisions. Also, any relevant negative impacts and our monitoring of these impacts are reported. In addition, the team contributes to PGGM Investments annual Integrated report and report on its responsible investment activities in the Principles of Responsible Investment (PRI) annual survey.

In addition, PGGM Infrastructure Fund quarterly reports to the investors on investment performance of the investee companies, including sustainability. This includes ESG stewardship activities, impact investing and integration of ESG-factors in our investment decisions. Also, any material ESG incidents and emerging risks are reported to investors.

5. Annex

Please note that there is an Annex applicable for this ESG-guideline. This Annex forms an integral part of this ESG-guideline and may be updated from time to time. The applicable Annex is available on our website.

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