

# Policy Paper Corporate Governance



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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 word. 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.

Corporate Governance is important for PGGM, both from compliance with law and regulations as from a stewardship perspective. This Corporate Governance Policy Paper defines our general principles and view on good practices, with regard to PGGM's investor responsibilities. It also discusses the way PGGM fulfils the role of steward and active shareholder of our clients' (equity) investments. This Corporate Governance Policy Paper falls hierarchically under our [Integral Policy and Instruments Responsible investments](#).

Corporate governance is one of the - if not the - most important preconditions for embedding and anchoring sustainability and long term value creation. It determines the way in which we as investor can interact with companies and execute our rights and responsibilities as shareholders. Our Corporate Governance Policy Paper primarily addresses environmental, social and corporate governance (ESG) related matters. We want all our investment to meet a minimum sustainability requirements, which we address in our Investment policy 2020-2025. Corporate governance is a prominent part of these requirements and stewardship efforts.

This document explains PFZW's policy framework for corporate governance and minimum sustainability requirements from a Dutch asset owner perspective. It sets out our underlying basic principles and expectations, and explains how we meet our ownership and stewardship responsibilities. This paper serves three purposes:

1. **Being transparent** to our relevant stakeholders about PGGM's view on corporate governance.
2. **Communicating our views** to market participants and (listed) companies we invest in, with regard to corporate governance.

3. **Providing guidance** for our investment teams for integrating corporate governance in investment decisions and to promote good corporate governance and sustainability practices at (listed) investee companies.

In this paper we will first explain why corporate governance is a precondition and hence a key area of focus for our investments. Subsequently we discuss the way in which we regard corporate governance and our role as universal owner and steward. We will conclude the paper by discussing how to address corporate governance in our investments and the stewardship activities we are required to undertake. Furthermore, we highlight our efforts to mitigate material risks and/or concerns and contribute to long-term value creation by (listed) investee companies and consequently to the long-term risk-adjusted returns on our investments.

# 2 The Importance of Corporate Governance

Good corporate governance is not a goal in itself, it serves as a precondition and catalyst for embedding and anchoring sustainability. Good corporate governance standards and practices help to mitigate material risks and contribute to long-term value creation by the companies we invest in, and to the long-term risk-adjusted returns on our investments.

However, addressing proper corporate governance standards and practices is far from voluntary either. Through laws, rules and regulations<sup>1</sup> and/or mandatory<sup>2</sup> or voluntary signed and/or endorsed codes and/or principles<sup>3</sup>, as well as the society at large require investors of (listed) companies to take their (stewardship) responsibility in playing an active and effective role in the corporate governance model.

Stewardship, engagement and active shareholder ownership, is part of PGGM's identity and contributes to a positive reputation of our pension fund clients.

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1 For example the implementation into Dutch Law of the EU Shareholder Rights Directive (SRD II) and the implementation of the Directive on the activities and supervision of institutions for occupational retirement provision (IORP II).

2 For example the Dutch Corporate Governance Code.

3 For example, PGGM was closely involved in the setting up and drafting and became one of the launching signatories to the UN-backed [Principles of Responsible Investment](#) (UNPRI). PGGM has committed itself to integrating ESG issues into investment analysis and decision-making processes and to promote acceptance and implementation of the Principles within the investment industry. And As Eumedion participant, PGGM contributed in developing the first [Dutch Stewardship Code](#) (20 June 2018). We endorse this Stewardship Code.

# 3 Our understanding of Corporate Governance

We take the position that corporate governance describes the division of tasks and responsibilities between the management and supervisory board of a company on the one hand and its shareholders, including proper supervision and accountability thereof, on the other hand. Corporate governance standards must ensure proper management systems with adequate checks and balances. It should serve shareholders and provide them with the necessary tools and influence to bring about changes within companies, for example ESG improvements. Furthermore, it describes the relationship between the company and its relevant stakeholders and its conduct towards these stakeholders.

## 3.1 Our basic Corporate Governance principles

This Policy Paper Corporate Governance is principle based and discusses PGGM's general basic principles and position on corporate governance and specific aspects thereof. In order to meet our clients' pension ambition in a prudent way, PGGM invests globally - amongst others - in equity capital of (listed) companies. To this end, PGGM requires well-functioning and sound capital markets. Given the exposure to multiple markets and ESG matters, PGGM considers it to be in its best interest to promote capital market and corporate governance practice improvements in order to achieve sustainable financial returns on its investments worldwide. These investments are a cross section of globally available investment opportunities. Risk and return of these investments are to a large degree determined by well-functioning jurisdictions (rule of law<sup>4</sup>), markets, economies, sectors, institutions and companies.

### Role as Asset Owner

As an institutional investor, PGGM is the manager of the investments on behalf of our clients (pension funds) and their ultimate beneficial owners: their beneficiaries. We see shareholders as (co-)owners of the company. Being an asset manager brings along rights as well as responsibilities. As a responsible asset manager, we will make prudent use of the rights and obligations that come along with (listed) equity ownership. This means that:

- long term value creation of the business has top priority, and we relate this to our belief that ESG matters are a determining factor;
- PGGM takes its own and its clients' identity into account in its investments and its actions resulting thereof;
- PGGM puts the interests of its clients and their beneficiaries on the forefront, whilst considering the interests of other relevant stakeholders.

PGGM views itself as a universal investor. The universal investor concept presumes that large institutional investors (i) hold equity of many or even most (listed) companies in all major indices worldwide, (ii) tend to invest for sustainable long-term returns, and (iii) possess economic interests that are aligned with (or even identical) to those of the broader society. Hence, it is in the best interest of universal investors to promote social and environmental goals, such as – but not limited to – laid down in international conventions like the [UN's Global Compact](#) the [UN Sustainable Development Goals \(SDGs\)](#) or the [OECD Guidelines for Multinational Enterprises](#) and by and/or through the equity in companies they own or manage. PGGM indeed considers this to be an important part of its management of its investments on behalf of its clients.

### Goal of long-term value creation

PGGM strives for an optimal risk-adjusted return on our investments. Therefore, we seek to invest in companies that first of all create sustainable long term value and that have a positive impact on society and/or the environment. Various studies have found a positive or neutral correlation between corporate governance and financial performance or market value. Companies with involved and active owners tend to perform better, both financially in terms of positive social and/or environmental impact. Considering the large number of companies PGGM invests in, PGGM will have to be selective, seek collaboration with others and/or render the services of third parties when implementing and executing this Corporate Governance Policy Paper. Nevertheless, PGGM always remains fully responsible for the execution of this Policy Paper Corporate Governance as well as the determination of its objectives and agenda. In weighing the various interests, we will take into account principles of reasonableness and fairness, as well as materiality and proportionality.

<sup>4</sup> Which relates also to [Sustainability Development Goal \(SDG\) 16](#).

### Mindful of Dutch descent

Even though PGGM invests globally, the applicable laws and regulations differ per jurisdiction. As a Dutch Pension Fund Manager, PGGM views the underlying norms and values of Dutch laws, regulations, (corporate governance and stewardship) Codes and society as the leading framework for our actions. In this respect, operating on a global scale could mean that local laws and regulations make it troublesome or even impossible for PGGM to play its role well. Hence, under certain circumstances, PGGM will partly or completely relinquish itself from its active role. As a last resort, PGGM could decide to refrain itself from investing in a company, sector and/or an entire jurisdiction.

Also, PGGM is of the opinion that institutional investors bear a higher responsibility for their domestic market. As Dutch Pension Fund Manager, PGGM sees The Netherlands as its home market and is prepared to make additional efforts to improve its capital market as a whole and its investments in Dutch companies in particular.

### Principle based

As stipulated, our view on Corporate Governance is principle based, as is the case for the Dutch Stewardship Code. This Policy Paper Corporate Governance intends to provide general guidance. It may be applied and/or interpreted depending on the circumstances of each case. All in all, PGGM will strive to live up to the spirit of this policy, implement it, be transparent about the process and report accordingly. This policy paper and the subsequent positions on specific aspects of corporate governance will evolve over time. PGGM monitors relevant developments closely and will evaluate and update its policies when necessary.

### Separation of role PGGM and the company's board

The management and supervisory board of a company is responsible and accountable for the management of the company. PGGM acts on behalf of the interests of its clients and their beneficiaries and holds the board accountable for the execution of the board's tasks by means of voting, engagement and/or shareholder litigation procedures. Where relevant, PGGM will utilize its right to submit shareholder resolutions to the agenda of a shareholders meeting, for example on ESG matters.

## 3.2 Endorsed Corporate Governance principles

PGGM endorses internationally recognized and accepted basic principles of good corporate governance and proper checks and balances. It refers to the six basic principles of the G20/OECD Principles of Corporate Governance (2015), although these OECD Principles are in first instance aimed at legislators, and the ICGN Global Governance Principles (2017). PGGM complements its basic corporate governance framework with specific principles of the Dutch corporate governance system and Dutch law, rules and regulations, the Corporate Governance Code and the Stewardship Code<sup>5</sup>. Shareholder rights, accountability and transparency are key focus corporate governance matters for PGGM.

<sup>5</sup> Please note in this respect the [Statement compliance Dutch Corporate Governance Code](#) of our asset manager.

# 4 Instruments to address corporate governance in our investment portfolio

## 4.1 Stewardship

Asset owners and asset managers – like PGGM - hold the overwhelming majority of the shares in listed companies and manage assets on behalf of third parties. As a result, society at large expects that asset owners and asset managers take their responsibility in playing an active role in promoting good corporate governance and sustainability practices at their investee companies. The recently adopted revised EU Shareholder Rights Directive (SRD II)<sup>6</sup> stipulates that “effective and sustainable shareholder engagement is one of the cornerstones of the corporate governance model of listed companies”. We want to meet our stewardship responsibilities in a way that contributes to long-term value creation by our investee companies and consequently to the long-term risk-adjusted returns on our investments.

As a [Eumedion](#) participant, PGGM contributed to the development of the first [Dutch Stewardship Code](#) (20 June 2018)<sup>7</sup>. PGGM endorses this Stewardship Code.

Stewardship is also embedded in Principle 2 of the UNPRI: “We will be active owners and incorporate ESG matters into our ownership policies and practices.”

It is not the investor’s - asset owner’s nor the asset manager’s - role to manage the companies in which they invest. However, as investor we do have a role to play in monitoring the management and supervisory boards of those companies and that is why we need to gain understanding on how the boards fulfil their responsibilities and hold them accountable for their actions or lack thereof.

### 4.1.1 Voting

PGGM’s stewardship role includes voting in an informed manner at (extraordinary) general meetings and the monitoring of our investee companies. Informed, means that the voting right is exercised in accordance with PGGM’s voting guidelines<sup>8</sup>.

We strive to vote in an informed manner at all (extraordinary) general meetings with the aim to:

- Have a positive contribution to the long-term value creation by our investee companies;
- Contribute to the continuity of the companies and their affiliated enterprise;
- Promoting good corporate governance and sustainability (ESG) practices at our investee companies.

We monitor the votes executed on our behalf publicly disclose these votes on our website.

### 4.1.2 Shareholder proposals

In many jurisdictions, shareholders have the right and practical means to propose a resolution for a (extraordinary) general meeting to discuss and/or vote on during the (extraordinary) general meeting. We see this as one of the essential shareholder rights.

PGGM exercises restraint in using this right. In principle we will not use our right to file a shareholder resolution without prior dialogue with the company. However, when we deem it needed or desirable to meet our stewardship responsibilities and/or achieve our goals, we will utilise this instrument.

### 4.1.3 Engagement

We conduct a meaningful and constructive dialogue with markets and/or companies with the aim to bring about improvements. We engage individually as well as collectively<sup>9</sup>. PGGM has an Engagement Guideline which determines how engagement is determined and conducted.

<sup>6</sup> Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC to encourage long-term shareholder engagement (OJ 2017, L 132. SRD II has been implemented in the Netherlands, effective as of 1 December 2019.

<sup>7</sup> The Dutch Stewardship Code entered into force on 1 January 2019. From book year 2019 onwards, we are expected to apply the principles of the Code and report on the implementation of it.

<sup>8</sup> Please refer to our [Global Voting Guidelines](#).

<sup>9</sup> In line with for example: “We will work together to enhance our effectiveness in implementing the Principles.” (UNPRI) and “[Investors] cooperate where appropriate and at their discretion with other shareholders in performing their stewardship activities” (Dutch Stewardship Code).

For universal owners, market (collective) engagement is instrumental in (top-down) improving corporate governance standards and/or practices in the jurisdictions and capital markets we invest in. The primary aim is to improve transparency, reduce capital market (systemic) risks and improve the comparability between capital markets (level playing field).

Corporate governance focus areas:

### Shareholder rights

To be able to undertake our stewardship responsibilities and to play an active role in promoting good corporate governance and sustainability practices at investee companies, investors need appropriate and effective shareholder rights. Our market and company engagement is aimed to preserve and improve these rights.

### Boards

It is the management and supervisory board's role to manage the companies in which we invest, not our role as owner of the shares in these companies. However, we have a role to play in monitoring the boards of those companies. That is why we need to gain understanding on how these boards fulfil their responsibilities and create long-term value. The composition and functioning of the executive and supervisory board are crucial in this.

### Compensation and remuneration

Excessive compensation contradicts with the values of our beneficiaries and the identity of our pension fund. In our [Compensation Policy](#) we express our views on compensation within the capital markets system and set our goals for change. It applies to financial service providers, like our asset manager(s), and companies we invest in. We see significant differences in practises across our various asset classes and therefore we will provide a tailored implementation of this policy for each asset class.

#### 4.1.4 Transparency & accountability

PGGM attaches great importance to transparency and accountability. We report on our website about our compliance with applicable legislation and the commitments arising from codes and covenants and disclose the specific information requested. We report on the stewardship activities we conducted to our clients and other stakeholders.

#### 4.1.5 Shareholder litigation

PGGM defines shareholder litigation as the conduct of legal proceedings as a shareholder in companies in which we invest, or were invested, which qualify on the basis of one or more of the following objectives:

- Financial proceeds to limit damages: Recovering investment losses resulting from fraud, corruption,

embezzlement or other forms of misconduct by listed companies;

- Contribution to the risk-return profile: Where possible, improving the corporate governance of the company concerned in order to remain invested as a shareholder with a long-term outlook;
- Prevention: Setting standards to prevent undesirable behaviour (fraud, corruption, deception etc.).

We make a clear distinction between what we see as 'active' versus 'passive' shareholder litigation. We regard passive shareholder litigation as conducting an appropriate administrative process to collect full or proportionate financial damages accruing to us from settlements in group actions and/or administrative penalties imposed by regulatory bodies. This 'proof of claim' process is largely administrative and has been outsourced to an external service provider. We obtain information to monitor relevant shareholder litigation cases, through service provider(s), law firms, from our own network of institutional investors, and our own research, based partly on public sources. We see passive shareholder litigation as a minimum obligation and reserve the right to conduct active shareholder litigation actions.

## 4.2 Policy papers on specific aspects of corporate governance

PGGM publishes policy papers on specific aspects of corporate governance on its website. These papers form the basis for our voting on relevant topics and serve as a starting point for discussion and/or engagement with market participants such as – but not limited to - standard setters and (listed) companies. We will add, update and/or revoke these papers where needed and/or we deem fit.

### 4.2.1 Anti-bribery & corruption

Combating bribery, bribe solicitation and extortion is mentioned in the [OECD guidelines for multinationals \(2011\)](#) as a focus area for preventing and/or mitigating (potential) adverse impact. This topic is addressed in our Policy Paper on Anti-Bribery and Corruption and will therefore not be addressed in this paper.

### 4.2.2 Sustainable tax

Taxation is mentioned in the OECD guidelines for multinationals as a focus area for preventing and/or mitigating (potential) adverse impact. This topic is addressed in our Policy Paper on Sustainable Tax and will therefore not be addressed in this paper.

# 5 Conclusion and further steps

Corporate governance is an important precondition for embedding and anchoring sustainability. Hence, good corporate governance is not a goal in itself. Good corporate governance standards and practices contribute to long-term value creation by the companies we invest in and to the long-term risk-adjusted returns on our investments and help to mitigate financially material and reputational corporate governance risks.

Given the exposure to multiple markets and ESG matters, PGGM considers it to be an important part of its duty to promote capital market and corporate governance practice improvements in order to achieve a sustainable financial return on its worldwide investments. These investments are a cross section of globally available investment opportunities. Risk and return of these investments are to a large extent determined by well-functioning markets, economies, sectors and companies.

PGGM endorses internationally recognized and accepted basic principles of good corporate governance and proper checks and balances. We endorse the Stewardship Code.

We report on the stewardship activities conducted on behalf of our clients.

# 6 Reference

Please find herewith some of the major corporate governance principles we endorse:

1. [G20/OECD Principles of Corporate Governance \(2015\)](#)
2. [Dutch Corporate Governance Code \(2016\)](#)
3. [Dutch Stewardship Code \(2018\)](#)
4. [ICGN Global Governance Principles \(2017\)](#)

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