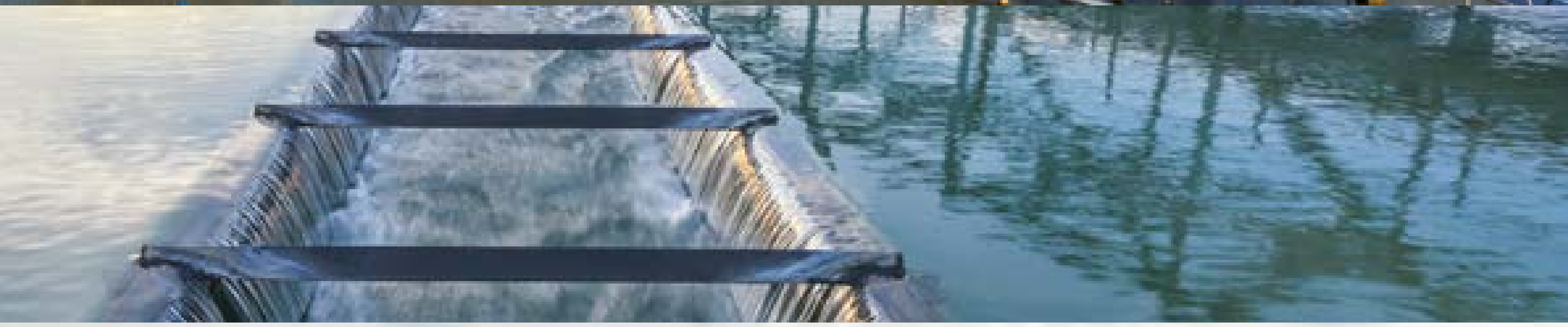
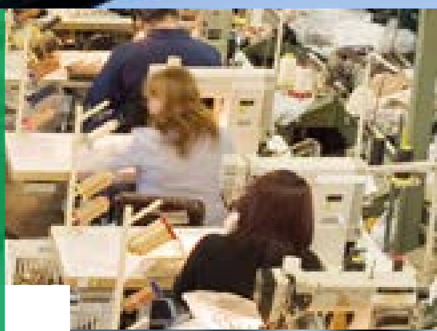



Annual Responsible Investment Report



2015

PGGM

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Statements

Management Statement

As the administrator for investment funds and the asset manager for pension funds, PGGM Vermogensbeheer B.V. (PGGM) supports its clients in their task of providing a stable and high-quality pension for their participants, now and in the future. PGGM is convinced that contributing to a sustainable world helps create a valuable future for participants. Not only by fulfilling our clients' wider social responsibility or by complying with laws and regulations or other standards, but also by helping them in fulfilling their primary task. This is why we invest the pension assets of our clients in a responsible way.

This report renders account of the activities carried out in support of responsible investment in 2015. This concerns advisory, as well as implementation-related activities. The policies pursued by our clients and PGGM's responsible investment framework form the starting point in this respect. This framework seeks commonality within the PGGM investment funds (PGGM funds), while providing scope to meet clients' specific policy requirements through internal and external asset management. That means that the activities we describe in this report are not always applicable to all clients.

In compiling the PGGM 2015 Annual Responsible Investment Report we have in principle adhered to the international reporting principles of the Global Reporting Initiative (GRI) G4 (Appendix 5). We have not followed the GRI to the letter, because this annual report concerns the asset management activities and is not relevant at the PGGM N.V. level.
The 6 principles of the UN Principles for Responsible Investment (PRI) were also used as a reporting guideline.

We have assessed the PGGM 2015 Annual Responsible Investment Report and declare that, to the best of our knowledge and belief, the information in this report presents a true and fair view of reality. The PGGM 2015 Annual Responsible Investment Report has been assessed and provided with an independent assurance report by KPMG Sustainability, an independent external auditor. This assurance report is attached in Appendix 6.

Zeist, 11 April 2016

Management of PGGM Vermogensbeheer B.V.

Eloy Lindeijer
Marc van den Berg
Arjen Pasma
Bob Rädecker

Statement of the Supervisory Board

The Supervisory Board of PGGM Vermogensbeheer B.V. was instituted in 2014. As supervisory directors, we supervised the preparation of the PGGM 2015 Annual Responsible Investment Report and declare that, to the best of our knowledge and belief, the information in this report presents a true and fair view of reality.

Zeist, 11 April 2016

Supervisory Board of PGGM Vermogensbeheer B.V.

Else Bos
Paul Boomkamp

Foreword

In the current environment, with low interest rates and moderate growth prospects, the funding ratios of pension funds are under pressure. Realising the financial ambition is essential and requires a great deal of attention. We are convinced that a focus on sustainability is very important in this respect. To mainstream responsible investment, precisely under these difficult market conditions, requires courage. Fortunately we are seeing that this is increasingly happening. In 2015, almost 1,500 financial institutions were members of the PRI and most pension funds have now adopted a responsible investment policy. To take the next step in integrating responsible investment into PGGM's investment processes, the investment and advisory teams have been given full ownership of responsible investment as of 2016, whereby the Responsible Investment department functions as a common knowledge centre and a catalyst for the entire investment chain.

For years, institutions, such as the World Economic Forum (WEF) have been pointing to climate change as a major economic risk. However, its incorporation into the risk management framework of companies and their financiers is still limited. Regulators and supervisory authorities united in the Financial Stability Board (FSB) are urging financial institutions, credit rating agencies and auditors to take action. In 2015, we developed a methodology designed to use investments as a tool to reduce CO_2 emissions. We are proud of the fact that we can implement this problem-solving approach on behalf of multiple clients.

To limit the rise in temperature to 1.5ºC, the ambition set in the Climate Agreement requires private investment. This is also the case for achieving the United Nations' Sustainable Development Goals (SDGs) by 2030. To make a contribution to this, we invest in climate, water scarcity, food security and healthcare solutions on behalf of our clients. The impact of these investments is measured so that we know what our actual contribution is and so that we can manage accordingly.

We invest with a long-term horizon and assess our own responsible behaviour and that of the parties with whom we do business. In 2015, PGGM implemented more detailed remuneration guidelines for companies and financial service providers designed to counteract excessive remuneration and fees. As an active shareholder, in 2015, we made an impact on various market parties and companies, such as the pharmaceutical companies Mylan N.V. and Novartis AG. Mylan has taken measures to prevent its medicines from being used to administer the death penalty and Novartis is going to supply inexpensive medicines to developing countries.

We consider cooperation with others essential. Indeed, our collective impact is far greater. For example, internationally, banks achieved greater transparency and comparability in their annual reports because they implemented the recommendations of the FSB's Enhanced Disclosure Task Force (EDTF). In addition, on the basis of our membership in Focusing Capital on the Long Term (FCLT), we are working together with investors and companies on long-term investment strategies. We also achieved good results on the basis of the PRI's joint engagement initiatives, such as greater transparency of working conditions in the agricultural supply chain.

In 2016, we will once again devote our efforts to realising financial and social returns. By working together, making our voice heard and by demonstrating behaviour that contributes to a sustainable financial system, we want to further enhance our tangible impact as a responsible investor.

Eloy Lindeijer
Chief Investment Management

2015 Responsible Investment Overview

AREAS OF FOCUS

Climate and Environment | Water | Food | Health | Human Rights | Corporate Governance | Sustainable Financial System

INSTRUMENTS

INVESTING IN SOLUTIONS

Mandate: at least € 20 billion invested in solutions by 2020

€ 8.9 billion

Total: € 8.9 billion

New in 2015: € 994 million

Area of Focus	Euros Invested	Impact in 2014
Climate and Environment	€ 2,140 million (**€ 761 million** in 2015)	Generated **1.6** million megawatt-hours of sustainable energy; Avoided **4.6** million tonnes of CO_2 emissions.
Water	€ 253 million (**€ 0** in 2015)	Treated **170** million m³ of water.
Food	€ 1,208 million (**€ 165 million** in 2015)	Produced **113,000** additional tonnes of food.
Health	€ 473 million (**€ 68 million** in 2015)	**116,000** persons provided with access to good healthcare.
Other*	€ 4,817 million (**€0** in 2015)	Impact not measured.

* This concerns (1) investments in liquid equities within the 4 themes referenced above for which the impact has not yet been measured; and (2) investments whose impact does not contribute to the 4 themes referenced above and that as of 2016 consequently no longer form part of the category Investing in Solutions and whose impact therefore was not measured.

ESG INTEGRATION

Mandate: CO_2 footprint of the investment portfolio halved by 2020.

Baseline measurement of the equity portfolio as at 1-1-2015: relative CO_2 footprint = 339 tonnes of CO_2 per million dollars of company turnover.

Total CO_2 emissions in 2014: 12.9 million tonnes of CO_2.

ENGAGEMENT

Engaged 374 companies and 34 market parties in dialogue:
36 results achieved among companies
5 results achieved among market parties

VOTING

Voted at **3,529** shareholder meetings:
40,234 votes cast

LEGAL PROCEEDINGS

€6,114,403 of our investment losses recovered.

EXCLUSIONS

Total: 114 companies and government bonds of **13 countries.**
New in 2015: 1 company due to the production of controversial weapons.

Summary

We want to achieve good returns through responsible investment and at the same time have a tangible impact on creating a sustainable world. We are convinced that financial and social returns go hand-in-hand.

We apply 6 instruments for the purpose of excluding companies and countries engaged in activities that we do not support, encouraging companies and market parties to make sustainability improvements, and contributing to social **solutions** through our investments. Our mandate is to have at least € 20 billion invested in solutions by 2020. At the end of 2015, a total of € 8.9 billion had been invested in solutions. In 2015, we invested € 994 million in new solutions. Each year, where possible, we calculate the impact achieved on the basis of these investments.

We want to take a next step in **integrating** responsible investment into the investment processes. This is why, effective from 2016, we will apply a strategic agenda concerning responsible investment within the investment chain. Furthermore, we have given the investment and advisory teams full ownership of responsible investment. Our ultimate aim is to have all teams fully internalise responsible investment as part of their daily operations. In 2015, the level of maturity in the area of responsible investment was determined for each investment and advisory team.

In consultation with our clients, we have selected 7 **areas of focus** for which we want to make a contribution. Each area of focus is summarised below or 2015.

Climate and Environment

The Climate Agreement signed in Paris aims to keep the maximum temperature increase to well below 2°C, pursuing efforts to limit temperature increase to 1.5°C. To make a contribution to this, we invest in climate solutions. At the end of 2015, we had invested a total of € 2.1 billion in climate solutions. In 2014, the total quantity of sustainable energy generated through these investments amounted to more than 1.6 million megawatt-hours. In 2014, the total CO_2 emissions avoided due to these investments was more than 4.6 million tonnes of CO_2. In 2015, we made € 761 million new investments in climate solutions. We invested in green bonds, in a wind farm, in 2 funds that invest in renewable energy, in 2 bio-ethanol producers and office buildings that we will make more sustainable.

To reduce CO_2 emissions in the investment portfolio, we developed a methodology in 2015 for **CO_2 reduction** in the equity portfolio. As at 1 January 2015, the relative emission of this portfolio was 339 tonnes of CO_2 per million dollars of company turnover. The mandate is to halve this volume by 2020. As of 2016, we are shifting a portion of our equity investments to less intensive CO_2 companies for this purpose. With this phased shift we are also sending a message: we are combining this with intensive discussions with these companies. Furthermore, in 2015, we entered into a partnership with the data analysis platform GeoPhy B.V.
to map out our real estate portfolio in terms of CO_2 emissions. This enables us to make our existing investments sustainable and to add new, sustainable real estate.

Water

Water scarcity not only threatens public health, it also threatens economic growth. To combat water scarcity, we are investing in solutions, such as water purification and **water conservation**. At the end of 2015, we had invested € 253 million in water scarcity solutions. In 2014, the total volume of water treated by means of these investments was 170 million m^3. This is equivalent to the average annual water consumption of over 3.6 million residents in the Netherlands. In 2015, we devoted ourselves to making water data relevant to companies and investors. We contributed to developing a framework for determining a company's water risk that can be used by investors in making effective decisions.

Food
Food is a basic necessity and a key engine for social and economic growth. We invest in solutions for the efficient production and nutritious quality of food. At the end of 2015, we had invested € 1.2 billion in **food solutions**. In 2014, an additional 113,000 tonnes of food was produced by means of these investments. This is equivalent to 4,700 trucks of food. In 2015, we made € 165 million new investments in food solutions, in producers of sustainable food packaging, phosphate fertilisers and protein-rich foods.

Health
We want to contribute to health solutions and access to good healthcare. At the end of 2015, we had invested € 473 million in healthcare solutions. In 2014, more than 116,000 people throughout the world had access to good healthcare by means of these investments. In 2015, we invested € 68 million in healthcare solutions, such as hospitals in developing countries, medical technology companies, elderly care facilities and care homes.
In addition, we are engaged in discussions with companies concerning improved access to **medicines**. The pharmaceutical company Novartis is going to supply cheaper medicines to developing countries and other pharmaceutical companies have made similar commitments. Following a year of engagement, the pharmaceutical company Mylan has decided to implement control measures to prevent their medicines from being used in executions.

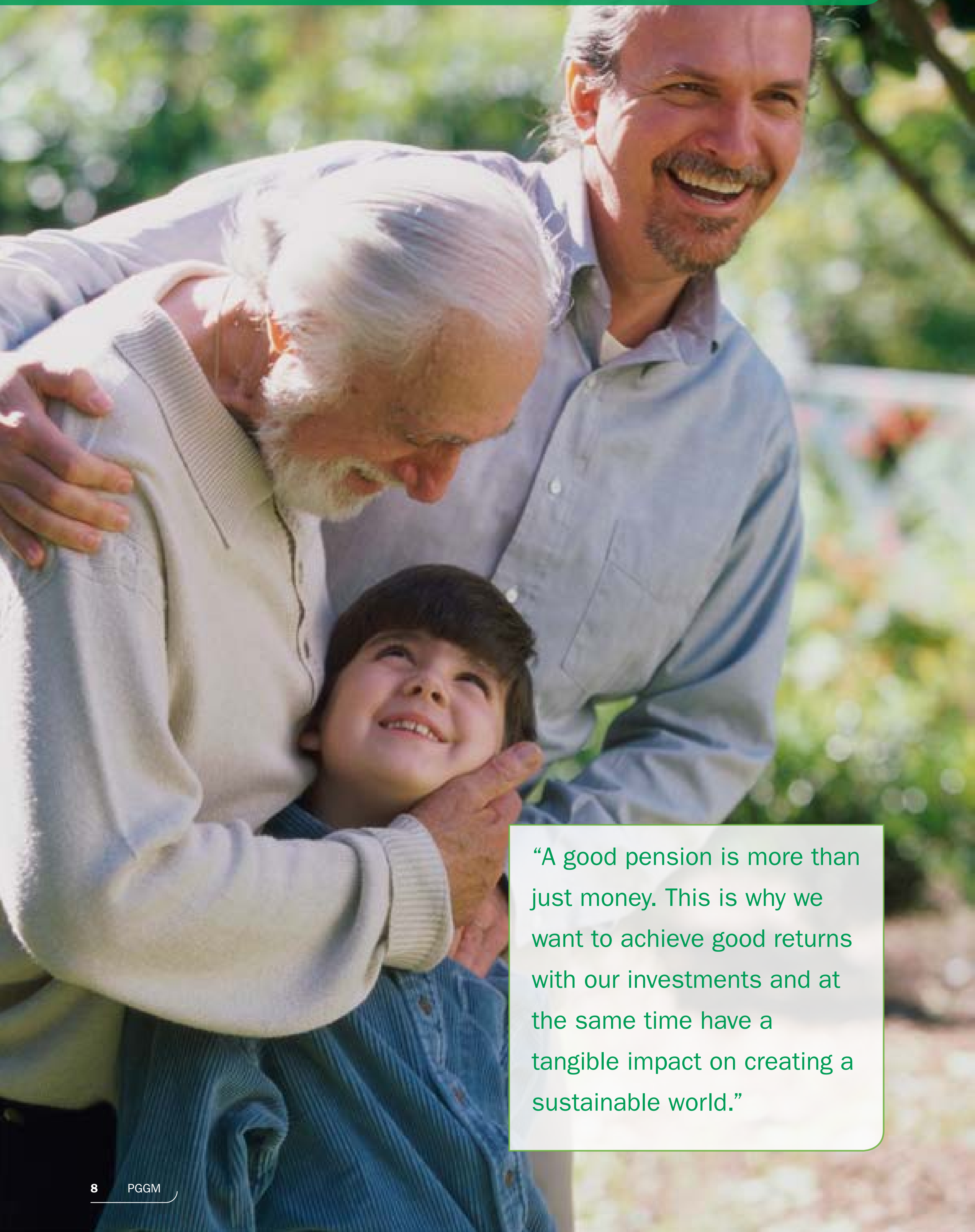
Human Rights
Respecting human rights is an important condition for achieving sustainable development. We include human rights in the screening process conducted in support of investment decisions and engage companies in a dialogue to call them to account for their responsibilities. Parties that are involved in the systematic violation of human rights and that do not show any improvement are excluded. In 2015, we successfully completed an engagement initiative with PRI: a number of food producers has improved the transparency of **working conditions** in the agricultural supply chain. Furthermore, we excluded S&T Dynamics Co Ltd due to their involvement in controversial weapons.

Corporate Governance
Well functioning markets and companies are a condition for sustainable development and contribute to better returns. In 2015, we contributed to the development of corporate governance standards in a number of countries. Furthermore, we implemented the **Remuneration Guideline** for portfolio companies in our voting and engagement activities, as a means of curbing excessive remuneration. Following engagement with the real estate company VEREIT Inc. pursuant to an accounting scandal, all board members were ultimately replaced. Following discussions with us and other stakeholders, the Hong Kong stock exchange will maintain the 'one-share-one-vote' principle.

Sustainable Financial System
We are dependent on the health of the financial system in terms of our ability to achieve returns for our clients.
To contribute to a sustainable financial system, we reviewed our own **behaviour** in 2015. We also analysed 14 counterparties in terms of their contribution to a sustainable financial system. Furthermore, we implemented the compensation guideline for financial service providers with the objective of counteracting excessive fees.

ESG Integration across the Areas of Focus
Effective from 2016, the Responsible Equity Portfolio will be transitioned into the Investing in Solutions via Listed Equities (BOA) portfolio. The new portfolio will only include companies that contribute to **solutions** for climate change, water scarcity, food security and healthcare.
Our real estate funds once again outperformed the GRESB benchmark that compares funds in terms of sustainability.

1. Responsible Investment: Developments and Approach



"A good pension is more than just money. This is why we want to achieve good returns with our investments and at the same time have a tangible impact on creating a sustainable world."

The desire that we share with our clients is for their participants to enjoy a good pension in a sustainable, liveable world. A good pension is more than just money. This is why we want to achieve good returns with our investments and at the same time have a tangible impact on creating a sustainable world. We are convinced that financial and social returns go hand-in-hand.

Responsible investment is an integral part of our investment approach. It means that we consciously take account of environmental, social and governance (ESG) factors in all of our investment decisions and that we exercise a positive influence through our investments. It also means that we critically assess our own behaviour, as well as that of the entities in which we invest or with whom we work together. We invest responsibly on the basis of the following beliefs:

- **Responsible investment pays off:** sustainability has a positive influence on the risk-return profile of the investments and this influence will continue to increase in the future.
- **No good and stable return in the long term without sustainable development:** global sustainable development is essential in order to generate good and stable investment results for our clients over the long term.
- **The driving force of capital:** using the driving force of the investments we can and must make a positive contribution to sustainable development.

Due to all of these developments, responsible investment has become more mainstream: many institutional investors throughout the world now have a responsible investment policy, provide due consideration to sustainability in their investments and report on this. Many are convinced that financial and social returns go hand-in-hand. Recent meta analyses show a positive correlation between better sustainability performance and financial results . Increasingly more institutional investors have an exclusion policy, take account of social and environmental risks in their investments and are aware of their responsibilities as shareholders in companies.

The new challenges include ‘impact investment’, or investing in sustainable solutions and reducing CO_2 emissions through investments. We see these challenges reappear in the new sustainability objectives, the Sustainable Development Goals (SDGs) that the UN published in September 2015. These goals are a follow-up to the millennium goals that expired in 2015, not all of which were achieved.

1.1 External Developments

Due to social issues, climate change and the lack of confidence in the financial sector, the focus on responsible investment is rapidly increasing. Excluding fossil fuels, the high cost and remuneration pertaining to private equity were topics of international public debate in 2015. Throughout the world, pension beneficiaries and other social groups are increasingly speaking out about the designated use of their (pension) money. In addition, global issues, such as water scarcity and social unrest increasingly form threats to stability and economic development. This affects investment results, now and in the future. Since 2015, the legislator requires pension funds to account for their management of these types of ESG risks. One of the basic principles of the prudent pension rule in the Dutch Pensions Act reads as follows: ‘In its annual report, a pension fund reports how its investment policy provides due consideration to the environment, climate, human rights and social relationships’[1].

1.2 Our Areas of Focus

We want to make a focused contribution to a sustainable world. This is why, in consultation with our clients, we have selected 7 social areas of focus for our responsible investment activities within the PGGM funds and the internally managed mandates. These areas of focus are reflected in the SDGs. Due to our focus on 7 themes we do not contribute to all SDGs and instead make a contribution to a select number of these goals (Figure 1). Our clients and their participants consider the 7 selected areas of focus to be important. Furthermore, we estimate that the developments within these themes can materially affect the investments.

1. De Nederlandsche Bank (2015): Prudent Pension Rule as an Open Standard.
2. Oxford & Arabesque (2015): From the Stockholder to the Stakeholder. How Sustainability Can Drive Financial Outperformance.

The areas of focus are as follows:

- Climate and Environment
- Water
- Food
- Health
- Human Rights
- Corporate-Governance
- Sustainable Financial System

Figure 1. How our areas of focus match the SDGs

In the chapters that follow, for each area of focus, we describe why it is a relevant theme, the contribution we want to make to this theme and what we did to implement our planned contribution in 2015. The extent to which the planned results were achieved differs by area of focus. For a number of themes we formulated clear objectives, and we developed a broad palette of instruments. Other areas of focus are less advanced in their development. For example, the food theme does not have an engagement programme. Over the coming years we will continue to work on developing activities and as such on enlarging our contribution in all areas of focus.

Our view on a circular economy

Circularity is one of the problem-solving approaches in support of the SDGs. Goal 12, ensure sustainable consumption and production patterns, in particular deals with the efficient use of raw materials and curbing waste through means of reuse and recycling. We are convinced that the transition to a circular economy is key for the planet as well as the economy. Valuable materials are destroyed in the current linear economy. Scarcity of materials cause price shocks in sectors that are highly dependent on raw materials. This has a direct impact on the economy as a whole and on investors like ourselves.

We consider it important to contribute to this transition and we do this in various ways, for example by means of investing in solutions. On behalf of our clients, we invest in circular solutions in the area of climate and environment, water, food and health. Examples include water purification plants and circular energy networks. As a member of the international Finance Working Group of the Ellen MacArthur Foundation, we, together with banks and investors, are exploring the definition of a circular economy and how financial institutions can contribute to it. The Working Group is scheduled to issue a report at the beginning of 2016 with an initial analysis of money and the circular economy. Finally, we are working together with other parties on a Circular Assessment of companies. The assessment identifies the circular opportunities available to a company and to what extent the company is already anticipating these opportunities. We then fine tune the tool on the basis of the acquired information.

1.3 Our Instruments

We use six instruments in support of the implementation of responsible investment activities (Sections 1.3.1 to 1.3.6, inclusive). We apply these instruments for the purpose of (1) excluding companies and countries engaged in activities that we do not want to support; (2) encouraging companies in a position to make sustainability improvements to do so; and (3) contributing to solutions to social issues through our investments. Figure 2 illustrates the triptych for Responsible Investment together with the associated instruments. On behalf of our clients we are increasingly focusing on the impact achieved through investments; the right-hand segment of the triptych.

The total assets we have under management and advice on behalf of our clients amounted to € 183.3 billion at the end of 2015. Of this, € 172.5 billion fell under the PGGM Responsible Investment Implementation Framework and under our responsible investment implementation advice. This report covers the responsible investment activities pertaining to this € 172.5 billion. This means that we apply these activities within the PGGM Funds, the internally managed mandates and the externally managed mandates in which our responsible investment advice is implemented (Appendix 1).

1.3.1 Investing in Solutions

We define investments in solutions as investments that not only yield market-rate returns, but that also add social value by contributing to solving local and global problems. One way or another we must find solutions to the ecological and social trends that threaten our welfare and wellbeing, such as climate change and food shortages. These trends not only constitute threats to society, they also constitute threats to companies and investors. At the same time, contributing to solutions to these issues represents a financial opportunity for investors.

Our mandate is to increase the investments in solutions from € 4.7 billion at the end of 2014 to at least € 20 billion by 2020. At the end of 2015, a total of € 8.9 billion had been invested in solutions. The increase of € 4.7 billion to € 8.9 billion in 2015 is related to the new investments in solutions made in 2015, valued at € 994 million (including € 251 million in commitments that are still to be converted into actual investments) and with the changed methodology used to calculate the total investments in solutions. In 2015, we decided to also include the beta and credit positions in the companies that have been selected for the Investing in Solutions via Listed Equities (BOA) portfolio (the former Responsible Equity Portfolio). After all, the various positions ultimately accrue to the same company. The total addition resulting from the 65 companies in the BOA portfolio at the end of 2015 amounted to € 2.9 billion. Finally, the existing investments in solutions increased by € 279 million in value over the course of 2015.

The largest share of the investments in solutions is related to the climate and environment theme. This is not a conscious choice, but a reflection of the supply of investment opportunities. Solutions to the climate issue, such as wind farms, are proving to be attractive investments in private markets that are consistent with regular risk-return profiles. In addition to climate and environment, we also invest in solutions related to the water, food and health themes. In the mandate to increase the investments in solutions to at least

PGGM's Instruments for Responsible Investment

NO
What we do not want

Direct exclusions
- Controversial weapons
- Tobacco

Exclusions after engagement on:
- Human rights and social circumstances
- Environment
- Corporate governance

Instrument:
Exclusions

CHANGE
What we want to improve

Making companies and markets more sustainable through ESG integration, active ownership and collaboration with financial service providers

Instruments:
- ESG integration (including ESG Index
- Engagement
- Voting
- Legal proceedings

YES
What we want to stimulate

Creating social returns in the area of:
- Climate and environment
- Water
- Health
- Food

Instrument:
Investing in solutions

Figure 2. Triptych with instruments for responsible investment

Our view on investing in solutions

In our view, an investment can only be considered an investment in solutions when it has a tangible positive social impact. In 2015, we further developed the selection criteria for defining an investment in solutions and standardised the indicators for measuring the impact. We settled on the following 3 criteria:

1. The investment contributes to a solution for at least 1 of the 4 investible areas of focus: climate and environment, water, food and health.

2. The investment's contribution to a solution must be substantial. The contribution is considered substantial, if:
a. more than 50 per cent of the company's turnover is derived from 'solutions'; or
b. the investment concerns a specific solution to a specific problem (such as a technological innovation or a certain medicinal product); or
c. the company or the project has a positive halo effect on the sector or the value chain, and in fact consciously aims for this.

3. *The social impact of the investment must be tangible.* For the company or the project, we require that the real impact of the solution is measured, managed and reported on.

In deciding to make an investment in solutions, we not only take the positive social contribution into account, but the potential negative effects as well. For example, a company may make a positive contribution to the food theme, but have an adverse impact on climate. In that case we as much as possible net out the positive and negative effects to determine whether the investment ultimately contributes to a solution.

Our impact measurement methodology is still under active development. We have not yet been able to measure the impact of a number of investments in solutions. To be able to calculate this impact we are dependent on the data provided by the companies and the funds in which we invest; they are required to measure and monitor their impact. We engage in dialogue to encourage them to do so. Visit our Investing in Solutions web page for a further explanation of this methodology.

€ 20 billion, we are not focusing on achieving an equal share in each of these 4 areas of focus.

By measuring the impact of the investments in solutions we can monitor the tangible contribution to solutions by means of our investments. Each year we calculate the impact achieved by means of these investments for the previous year. This means that in 2015, we calculated the total impact over 2014. In this calculation, we only allocate the share of the total impact that matches our share in the company or the fund. An overview of all investments in solutions and their impact is available on our Investing in Solutions web page.

1.3.2 ESG Integration

In 2014, PGGM N.V. initiated a three-year change management process, with the objective of providing the same quality to our clients at lower costs. Another objective of this process is to increase the organisation's versatility. To be versatile and to remain effective in the area of responsible investment, we want to take a next step in integrating responsible investment into the investment processes. This is why, effective from 2016, we will apply a strategic agenda concerning responsible investment within the investment chain. PGGM Vermogensbeheer B.V. is responsible for implementation and PGGM Strategic Advisory Services B.V., which includes Strategy and Fiduciary Advice, and is responsible for the policy side of this agenda. The agenda includes strategic priorities, such as CO_2 reduction and investments in solutions.

Furthermore, effective from 2016, the investment and advisory teams within the investment chain have been given full ownership of responsible investment.
Our ultimate aim is for responsible investment to be a natural given for all teams and that it is fully internalised as part of their daily activities. This transition does not mean the same thing for all investment teams. The level of maturity related to responsible investment differs by team and within teams. A number of teams has already taken major steps towards internalising responsible investment. At the end of 2015, the level of maturity in the area of responsible investment was determined for each investment and advisory team on the basis of the Responsible Investment Maturity Matrix (Figure 3). This matrix builds onto previous methods used to monitor the maturity of teams and also incorporates new aspects, such as attitude and behaviour.

We discern 5 maturity phases:

- **Initial Phase** – limited awareness or readiness, no or only very limited first steps.
- **Experimental Phase** – the team is learning, prepared to investigate opportunities, as yet mostly ad-hoc and dependent on the effort of individuals.
- **Standardisation Phase** – responsible investment is incorporated as a standard element, however there continues to be major dependence on the input provided by individuals.
- **Internalisation Phase** – there is ownership, knowledge and competences are widely present within the team, the team is focused on continuously improving the approach.
- **Innovation Phase** – the team is focused on developing thought leadership and innovation in order to be able to take the next step and holds others to account.

	Initiate	Experiment	Standardise	Internalise	Innovate
Attitude	No or limited interest in ESG issues; sceptical.	Open to learning; awareness of ESG issues and relevance.	Tick-the-box mentality; aware of ESG issues.	ESG ownership visible in team objectives; ESG viewed as an opportunity.	Development/ dissemination of thought leadership, ESG innovation.
ESG Integration	No ESG integration or initial steps only; no or limited ESG knowledge.	Some ESG integration, ad hoc and dependent on effort of individuals.	ESG integration in some phases of the investment process. Some ESG knowledge.	ESG integration throughout the entire investment process; ESG knowledge in entire team; continuous improvement.	Development of new responsible investment approach; motivate others to make improvements.
Policy and tools	No reference to policy; no guidelines.	Knowledge and implementation of ESG policy; no guidelines.	ESG guidelines for the asset category; own tools in line with best practices.	Own guidelines and tools revised to match new client needs and best practices.	Development of guidelines for specific issues/sectors, innovative ESG tools.
Behaviour regarding a sustainable financial system	No interest in or awareness of behaviour relevant to a sustainable financial system.	Initial discussion about behaviour.	Identification of potential behavioural issues; debate about desired behaviour.	Current situation and alternative behaviour up for discussion internally and with counterparties.	Development of alternative behaviour in line with a sustainable financial system.

Figure 3. PGGM's Responsible Investment Maturity Matrix

1.3.3 Engagement

With our engagement activities we hold companies and market parties to account for their policy and activities. Through this dialogue, we attempt to achieve ESG-related improvements, such as changes in behaviour or activities. We aim to create focus in our engagement activities. The objective is to increase the impact and profile of these activities. This is why many engagement activities are focused on improving standards at the market level; 'market engagement'. Where necessary, we engage in dialogue with legislators and regulators and focus on the development and implementation of voluntary best practice standards. In the dialogue with companies, 'company engagement', we primarily focus on halo companies, i.e. companies that have a halo effect within their region, sector or supply chain. These companies may be leaders or laggards.

In terms of engagement with companies where there is controversy, we closely work together with the external engagement service provider Global Engagement Services International AB (GES). The GES programme focuses on companies that do not operate in accordance with international guidelines in the areas of human rights, the environment and corruption. Our internal engagement activities are more focused on strategic areas within our areas of focus and on focus markets. Finally, we are involved in engagement activities in cooperation with other investors, such as by the use of the PRI, for example. The PRI is a global partnership in the area of responsible investment. By initiating joint engagement programmes under the PRI banner, investors are able to exert greater influence on companies and market parties. Appendix 3 describes the themes and the regions that were the subject of discussions and where we achieved results in 2015. Figure 4 illustrates examples of global engagement results.

1.3.4 Voting

Voting is one of the most important rights a shareholder has. We therefore vote on the basis of our own judgement at (Extraordinary) General Meetings of Shareholders, or shareholders meetings, throughout the world. We apply the PGGM Voting Guidelines for this purpose. These guidelines are updated annually. For each company, PGGM publishes its voting record on a special website. We have outsourced part of the voting to the proxy service provider ISS, which votes on the basis of our guidelines. In addition, we receive voting advice from Glass Lewis. We actively monitor the outsourced voting activities on the basis of multiple sources and vote on the most relevant resolutions ourselves. In addition, PGGM itself, or in cooperation with other investors, submits shareholder proposals at times when we consider this necessary to encourage a company to take action. In 2015, we participated in a pilot project of the PRI Vote Confirmation Working Group. In this project, a group of investors, in cooperation with the involved parties in the voting chain, checked a number of AGMs to determine whether the voting instructions had been processed properly. This pilot project was successfully completed. Appendix 4 lists the regions and the subjects on which we voted in 2015.

1.3.5 Legal Proceedings

When necessary, we institute legal proceedings against companies on behalf of our clients as shareholder to recover investment losses or to enforce good corporate conduct. There must be clearly demonstrable grounds for instituting legal proceedings. This may be the case, for example, if a company has committed fraud or other forms of misconduct leading to losses for shareholders. Legal proceedings can be brought in various ways. The main forms are direct action, i.e. bringing independent legal proceedings against a company, or a collective action, such as a class action in the United States. In this case a group of aggrieved investors with a common interest institutes legal proceedings. In most cases our involvement in class actions is passive. In 2015, the amount awarded pursuant to legal proceedings was over € 6.1 million.

1.3.6 Exclusions

We want to avoid making investments that are deemed unacceptable to us or our clients. This is why, in accordance with the PGGM Exclusion Implementation Guideline, we exclude companies that are involved in controversial weapons. We can also exclude companies that seriously violate human rights or that cause serious environmental pollution. In such instances, we first attempt to realise improvements by engaging in a dialogue with the company. If that fails, we can proceed with exclusion. In addition, we exclude the government bonds of countries subjected to sanctions by the UN Security Council and/or the European Union (EU). These sanctions may concern situations involving the gross and systematic violation of human rights or the possible deployment of controversial weapons. Finally, we exclude tobacco producers from the PGGM funds.

We apply the PGGM Exclusion Implementation Guideline within the PGGM funds and the internally managed mandates. In case of liquid investments we do this using exclusion lists. In case of private investments, we incorporate the exclusion criteria as investment restrictions in the contracts with external parties.
We apply the guideline to over 99 per cent of the investments. This does not mean that the remaining 1 per cent contravenes the guideline, but we are unable to determine in all certainty that the guideline has been fully applied. This mainly concerns exchange-traded funds and index futures in the equity funds, and a number of remaining investments in the PGGM Fund of Hedge Funds. Within internally managed mandates, we can additionally implement the exclusions specified by clients. The PGGM Exclusion Implementation Guideline does not apply to externally managed mandates. If a client so desires we can nevertheless implement this guideline for this particular client.

1.4 Advice and Decision-making concerning Responsible Investment

One of the services we supply to our clients is advice concerning their responsible investment policy and the associated activities we can perform. For example, in 2015, together with a few client management boards, we explored how to further define the details of their responsible investment policy and identified the themes that are important in this respect to ensure consistency with the objectives of their beneficiaries.

We are a multi-client organisation. Each client has its own policy with particular emphasis in the field of responsible investment. Within the PGGM funds with multiple clients, we search for commonality with our clients in the guidelines for responsible investment. We do this in Participant meetings, for example. This meeting gives the various participants in a PGGM fund the opportunity to take decisions on fund-specific subjects together with the PGGM fund manager and other participants. In 2015, the CO_2 reduction methodology for the PGGM equity funds was a topic on the agenda for this meeting.

To arrive at a sound joint decision, we and our clients can obtain advice and discuss dilemmas concerning responsible investment with our independent advisory council, the Advisory Board Responsible Investment (ABRI). 5 external experts are members of the ABRI, each with his/her own area of expertise. In 2015, the ABRI provided advice on topics such as reputation risks related to private equity, definitions for investing in solutions, the methodology for CO_2 reduction, and exclusion issues.

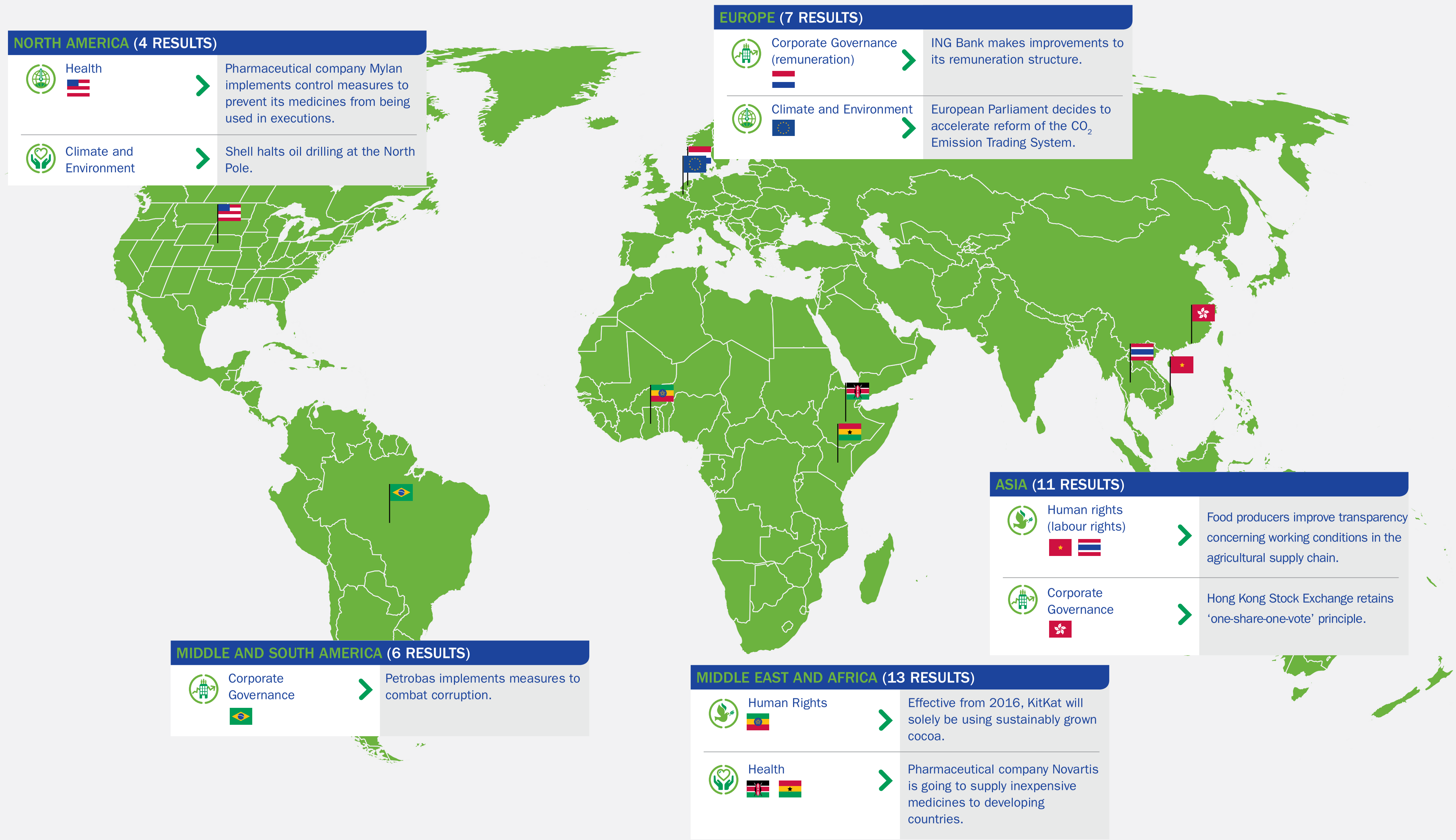


Figure 4. Examples of global engagement results

1.5 Investing in the Netherlands

Pension funds feel an even greater responsibility when they invest in their own country. A strong and sustainable Dutch economy contributes to a valuable future for their beneficiaries. In 2015, 10.9 per cent of the capital of our clients was invested in the Netherlands, representing a total of almost € 20 billion. Approximately 72.1 per cent of this is invested in government bonds. We are actively involved in various ways to provide pension funds with access to attractive investments in the Netherlands that are consistent with the desired risk and return profiles. As such we finance the Dutch business community through risk-sharing transactions and the investments, including investments in solutions, in the Netherlands were further expanded. For example, through the PGGM Infrastructure Funds we acquired an interest together with the Royal BAM Group N.V. in the OpenIJ consortium for the construction of a new sea lock in IJmuiden. This sea lock provides room for the growing goods transportation sector. The construction of this new sea lock enables the port of Amsterdam region to retain its importance for the Dutch and European economy.

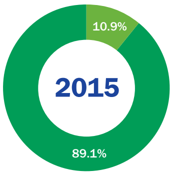
In April, the Netherlands Investment Institute (NLII), which we cofounded and in which we are a shareholder, announced its first investment funds focused on the larger SMEs; one fund for business loans and one for subordinated loans. The NLII is a private institution that wants to promote the growth of the Dutch economy by creating a better balance between the supply and demand for long-term financing. The NLII does this by developing propositions together with institutional investors that meet investment and financing needs. In 2015, we provided the NLII with advice concerning the initial investment funds by participating in the SME Proposition Council and we actively contributed to the formation of these funds.

Furthermore, in July, the ministers of Finance and Economic Affairs announced the formation of the NIA that aims to support Dutch companies that qualify for funds under the Juncker Investment Plan. We are seconding an employee to the NIA and were actively involved in the research into the positioning and further design of this initiative. We hope that the NIA, as a public institution, and the NLII, as a private institution, will complement and reinforce each other and, where possible, will support the initiatives of these institutions in order to increase investment opportunities for our clients in the Netherlands.

Responsible Investment in the Netherlands

INPUT

ASSETS UNDER MANAGEMENT IN THE NETHERLANDS

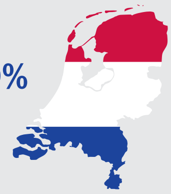


€ 19.9 billion invested in the Netherlands

€ 163.4 billion invested in other countries

€ 183.3 billion total invested assets

The Dutch economy represents 1% of the global economy; PGGM invests 10.9% of its assets under management in the Netherlands.



INVESTMENTS IN SOLUTIONS IN THE NETHERLANDS

€ 1 billion
(including 173 million in 2015) in:

- Local heating network
- Healthcare, including care homes
- Green deposits
- Green bonds for renewable energy
- Wind farm
- Dutch companies with a sustainability policy

INFLUENCE

ACTIVITIES RELATED TO DUTCH LISTED COMPANIES

Number of companies in the portfolio:	Engaged in dialogue with	Attended	Voted at
34	**9** companies	**5** shareholder meetings	**43** shareholder meetings

IMPACT

FINANCIAL RETURN FOR BENEFICIARIES SINCE FOUNDATION IN 1971

Average return on the total investment portfolio:

8.2%

MEASURED SOCIAL RETURN IN 2014 FROM INVESTING IN SOLUTIONS

-

Better access to good healthcare for over **3,400** Dutch residents.

Generated over **1.1 million** megawatt-hours of renewable energy; equivalent to the electricity use of over **353,000** Dutch households.

Figure 5. Responsible investment in the Netherlands

2. Climate and Environment

"We want to contribute to limiting global warming to below 1.5°C through our investments."

WHY THIS AREA OF FOCUS

SOCIAL RELEVANCE

This century the average temperature will rise by
1.1 tot 6.4°C[3]

Paris Climate Agreement ambition: limit rise in temperature up to 2050 to
1.5°C

> Requires private financing

RELEVANCE TO PGGM AND ITS CLIENTS

Investment opportunities:

An additional **€ 1 trillion** is required each year to reduce climate change[4]

Climate as financial risk:

> Stranded assets
> Physical consequences
> Unpredictable climate policy

WHAT & HOW

WHAT WE DO

Investing in
Climate Solutions

HOW WE CONTRIBUTED IN 2015

Total: **€ 2,140M**
(New in 2015: **€ 761M**)

Invested in
> Solar and wind energy
> CO_2 efficient buildings and production

Results including:

Generated **1.6M MWh** of sustainable energy

Avoided **4.6M tonnes** of CO_2 emissions

Impact in 2014 equivalent to: average annual electricity and CO_2 consumption of **687,000** Dutch households.

ESG Integration

Baseline measurement of equity portfolio on 1-1-2015: relative CO_2 footprint = **339 tonnes of CO_2 per million dollars of company turnover**
Total CO_2 emissions in 2014: **12.9 million tonnes of CO_2.**

Engagement
Market engagement

Climate Agreement strives to max. rise in temperature of **1.5°C** and **no additional CO_2** in the atmosphere after 2050.

Company engagement

Shell halts oil drilling at the North Pole.

3 KNMI (2016): Climate and Climate Change.
4 International Energy Agency (2014): Only $1 Trillion: Annual Investment Goal Puts Climate Solutions within Reach.

2015 was the year in which climate change was a focus theme throughout the world. The topic was included as one of the 17 Sustainable Development Goals. In the run-up to the Paris Climate Change Conference at the end of 2015, a great deal of attention was focused on climate change. Awareness about climate-related risks is increasing in the financial sector; particularly among major investors with long-term commitments.

2.1 Why Climate and Environment as an Area of Focus

Climate change is an urgent social problem. Although the global emission of CO_2 and other greenhouse gases levelled off for the first time in 40 years in 2014[5], current levels and the expected rise are too high to keep the global rise in temperature to below 1,5°C. This will result in extreme weather conditions, such as drought and floods, causing parts of the world to no longer be safely habitable, and drinking water and food shortages[6]. This can result in new refugee flows and social unrest. Furthermore, climate change results in the extinction of animal and plant species, and consequently a disruption of ecosystems[7].

Opportunities and Risks for Investors

Climate change entails risks, as well as opportunities for investors. The change required globally to live and produce in a clean environment creates new jobs and companies. The energy transition required to limit global warming to below 1.5°C requires major investments in clean energy and sustainable technology. For example, investments in wind parks consequently are expected to provide good returns over time.

Aside from exploiting opportunities, as a long-term investor we must also take into account the various risks that over time could have a material impact on our investment portfolio. Stranded assets, i.e. assets that have become worthless, constitute a risk to investors. One form of stranded asset that is regularly mentioned in relation to climate change is an investment in an energy company that produces fossil fuels. Energy companies run the risk of becoming stranded assets when proven reserves of oil, gas or coal in the earth may no longer be fully exploited. The exploitation of reserves may be curtailed to prevent the earth's temperature from rising more than 1.5°C. If we were to use all reserves, we would emit a tremendous volume of CO_2, causing temperatures to rise excessively. The value of a company engaged in fossil fuels is in part determined on the basis of the proven reserves that are reported on the balance sheet as assets. If these assets become worthless, the company's value plummets and consequently so does its share price.

In addition, the physical consequences of climate change constitute a risk to investors. For example, floods could affect the property in which we invest and the harvests of food producers in which we invest could fail more often. Finally, unpredictable government climate policy is one of the highest risks for long-term investments in sustainable energy. Investors can only make such investments if the returns and risks are predictable. This requires binding international agreements.

External Developments

The 21st Conference of the Parties (COP21), or the Paris Climate Conference, achieved unanimity among the various countries. This was in contrast to the climate conference in Copenhagen, which was marked by division and obstruction. The Climate Agreement signed in Paris aims to keep the maximum temperature increase to well below 2°C, pursuing efforts to limit temperature increase to 1.5°C.
The agreement identifies internationally linked CO_2 markets as a key instrument for this purpose. Furthermore, according to the agreement, the reinforcement of public resources with private capital is a key method for financing climate solutions in developing countries. All countries are required to regularly report on their progress regarding the reduction plan and will be openly held to account for any

5 International Energy Agency (2015): Global Energy-related Emissions of Carbon Dioxide Stalled in 2014.
6 The Nature Conservancy (2015): Climate Change – Threats and Impacts.
7 International Energy Agency (2015): Global Energy-related Emissions of Carbon Dioxide Stalled in 2014.

lagging results. The agreement has a number of weaknesses as well, such as the lack of a clear path to lower emissions, in terms of timing as well as actions.

Our view on a sound climate policy

Prior to the Paris Climate Conference, together with the Danish pension provider PKA, we presented our view on a sound climate policy. In our statement we asked policymakers to be critical of policy that blocks investments in sustainable growth and to provide for clear regulations that stimulate green investments. An ambitious treaty for a CO_2-free economy will reduce policy risks, stimulate innovation, facilitate the use of new technologies, create jobs and contribute to the clarity and certainty required to make investment decisions over the long term. We argued for the following specific improvements:

- Effectively operating CO_2 pricing mechanisms, because a high price for CO_2 emissions makes efficient reduction measures financially attractive.
- Combining public and private financing as a means of managing the political and financial risks of climate-related investments in emerging countries.
- Investing in energy efficiency and imposing strict emission limitations in polluting sectors as a means of enforcing efficiency improvements.

2.2 What We Do in the Area of Climate and Environment

We want to contribute to limiting global warming to below 1.5°C through our investments. We do this by:

- *Investing in Solutions (Section 2.3.1).* We are investing in climate-related solutions, such as sustainable energy and clean technology that contributes to greater efficiency and reduced wastage of raw materials.
- *CO_2 Reduction (Section 2.3.2).* On behalf of our clients we will reduce the CO_2 footprint of the investment portfolio, with the objective of halving it by 2020.
- *Engagement*
  - Market engagement (Section 2.3.4). We encourage policymakers to formulate national and international laws and regulations that recognise the urgency of climate change. Climate policy must contribute to a change in behaviour among companies.
  - Company engagement (Section 2.3.3). By combining CO_2 reduction measures in the portfolio with a dialogue about these measures with companies, we stimulate them to change their behaviour and to operate more efficiently. We focus on the most CO_2-intensive sectors, namely utilities, energy and materials. Our aim is that by 2020 all companies in these sectors will report on their CO_2 emissions and that the most CO_2-intensive companies on average have increased their CO_2 efficiency by at least 25 per cent in comparison to 2014. Finally, we urge companies that run the risk of being hardest hit by climate policy and stranded assets, to adopt better risk management and to make a positive contribution to the transition to clean energy. Our aim is that by 2020 the major companies in the energy sector will have integrated the risks and opportunities inherent in the energy transition into a long-term strategy consistent with the 1.5°C scenario.
- *ESG Integration.* We incorporate material climate opportunities and risks into our investment processes.

2.3 How We Contributed to this Area of Focus in 2015

2.3.1 Investing in Climate Solutions

At the end of 2015, we had invested a total of € 2.1 billion in climate solutions for our clients. In 2014, the total quantity of sustainable energy generated through these investments amounted to more than 1.6 million megawatt-hours. This is equivalent to the average electricity use of 486,000 households per year.
In 2014, the total CO_2 emissions avoided due to these investments was more than 4.6 million tonnes of CO_2. This is equivalent to the average CO_2 emissions of more than 201,000 households per year. An overview of all investments in climate solutions and their impact is available on our Investing in Solutions web page.

In 2015, we made € 761 million new investments in climate solutions. For example, within the existing guidelines of the PGGM Credits Fund we invested in the green bonds of ABN AMRO Group N.V. (ABN AMRO) and ING Bank N.V. (ING). The proceeds of these bonds will be used to finance energy-efficient projects and loans in Europe. Due to these bond issues, the banks contribute to the objectives of the Dutch Energy Agreement. Furthermore, through the PGGM Infrastructure Funds (Infra) we invested in the Baltic 2 wind farm in the German part of the Baltic Sea. The sustainable energy generated by this wind farm is exported to Germany where it is fed into the European power grid.

Aside from this, we invested in 2 funds that invest in renewable energy in the form of wind, solar and water energy: Terraform Global Inc. (through the Emerging Markets Credit Mandate (EMC)) and the Ampère Equity Fund (through Infra). In 2008, we were involved at the start-up of the latter investment fund, which primarily invests in wind and solar energy projects in Western Europe. Last year we increased our share in the Ampère Fund from 31.3 per cent to 46.9 per cent. The additional renewable energy generated through this expansion is equivalent to the annual power consumption of 99,500 Dutch households.

In 2015, we also made 2 investments in Brazilian producers of sugar and bio-ethanol through the EMC Mandate: Adecoagro S.A. and Cosan S.A. In contrast to the exhaustible energy sources coal and oil, ethanol is a renewable energy source. It is produced from sugar cane plants that accrete year after year. The expansion of the production of sugar cane has the potential of significantly reducing global dependence on fossil fuels. In comparison to petrol, sugar cane ethanol reduces the emission of greenhouse gases by more than 80 percent.
This represents the largest reduction in greenhouse gases in comparison to any other mass-produced biofuel at the present time. In 2015, we made a new investment over and above our existing investment in Adecoagro. Cosan is an attractive investment because its production process is energy efficient as well. As a result they emit less CO_2 in comparison with usual ethanol production processes.

Finally, at the beginning of 2015 we entered into a joint venture with Legal & General Group Plc through the PGGM Private Real Estate Funds. The purpose of this joint venture is to make office buildings at A locations in London more sustainable. We will do the same thing in Seoul, South Korea by means of our investment together with Orion Partners LP. The office buildings will be made sustainable with a focus on reducing their energy consumption by 25 per cent. The buildings are actively managed to further optimise their sustainability by reducing waste and water consumption and further reducing CO_2 emissions.

Partnership with GeoPhy for CO_2 transparency of real estate
In 2015, we entered into a partnership with the data analysis platform GeoPhy to map out our global real estate portfolio in terms of quality and CO_2 emissions. By making use of the technology developed by GeoPhy and using big data, we can acquire insight into the CO_2 load of global real estate investments, down to the level of individual buildings. In addition, we can compare the CO_2 load of our real estate portfolio with that of various local real estate markets. Because GeoPhy makes it possible to compare individual buildings, we can make existing buildings more sustainable faster, as well as add new sustainable real estate to the portfolio under the category investing in solutions.

2.3.2 CO_2 Emissions of Investments
Increasingly more financial institutions are calculating the CO_2 emissions of their investments. NGOs, pension beneficiaries and other population groups increasingly demand financial institutions to be transparent in this matter. Some social organisations and other stakeholders go a step further and demand that their bank, pension fund or (local) government is not only transparent about CO_2 emissions, but stops investing in fossil fuels, the major cause of CO_2 emissions. They want their capital to contribute to a better world instead of depleting it. This growing divestment movement received a great deal of attention in 2015. A number of financial institutions and governments has since announced that they will stop investing in fossil fuels or divest from their fossil fuel holdings.

Our view on divesting from fossil fuels

We are of the opinion that the direct exclusion of all fossil fuels does not contribute to sustainable development the right way. For the time being, fossil fuels such as oil and gas will continue to be important for energy generation and transportation. On the other hand, in our view investors can send key messages by taking investment decisions that take CO_2 emissions into account. A rapid transition to sustainable energy is sorely needed and we want to contribute to this. This is why we are going to reduce the CO_2 emissions of the investment portfolio.

CO_2 reduction in the equity portfolio
As of 2016, we are shifting a portion of our equity investments to less intensive CO_2 companies. We will start off with the listed equities investment category, because we have sufficient data available about this category to make sound measurements. We established the baseline as at year-end 2014: the relative CO_2 footprint at that time was 339 tonnes of CO_2 per million dollars of company turnover. In addition to the company's own CO_2 emissions (Scope 1), this also comprises power consumption (Scope 2) and the CO_2 emissions of direct suppliers (Scope 3). In 2014, the total absolute CO_2 emissions in the equity portfolio was 12.9 million tonnes of CO_2. We only include the company's own emissions here (Scope 1). Visit PGGM N.V.'s website for additional information about the CO_2 measurement methodology.

We will sell the shares of the most CO_2-intensive companies in the most polluting sectors: utilities, energy and materials. We will reinvest the freed-up capital in the shares of companies within these 3 sectors that are more CO_2 efficient. This way we stimulate sustainable production. This will take place in 4 yearly steps and result in investments being withdrawn from approximately 250 companies, with minimal execution costs. As a result of this methodology, coal companies will largely be eliminated from the investment portfolio by 2020. By that year, the assets invested in companies with stocks of fossil fuel will have been reduced by 30 per cent.

The phased exclusion sends a message to CO_2-intensive companies: we combine the sale of part of the shares with an intensive dialogue with these companies. We therefore do not immediately divest, but we use the driving force of money to stimulate companies to make the transition to clean energy.

2.3.3 Dialogue in the Oil and Gas Sector

Companies in the oil and gas sector were under scrutiny by the global divestment movement this past year. We engaged a number of these companies in a dialogue about climate risks and transparency. At the beginning of the year this resulted in a number of elaborate reports produced by major oil companies in which they explain why their oil and gas reserves will not become worthless in the future. The gain in this respect is the fact that these companies recognise the risk and have this within their sights. Substantively, there still is a lot of room for improvement, however. We conducted elaborate follow-up discussions about this with Royal Dutch Shell Plc (Shell) and ExxonMobil Corp., whereby especially Shell also took action: they halted the extraction of fuels from the most highly polluting oil sands and the high-risk drilling in the Arctic region. In order to further limit oil drilling in the Arctic region, we also cooperated in a joint engagement project under the PRI banner, whereby we called all major oil companies that are active in the Arctic to account for their risk management. Aside from managing environmental risks, we also focus on the financial health of such projects. Although Shell has halted operations at sea in Alaska, a number of other parties continue to operate in the Arctic region. We will continue our dialogue with these companies in 2016.

2.3.4 Lobbying for a Sound Climate Policy

In 2014 and 2015, together with other investors, we lobbied extensively for a better climate policy. Under the banner of the Institutional Investors Group on Climate Change (IIGCC) we argued for the accelerated reform of the CO_2 emissions trading system: we asked the European Parliament to already remove a large number of emission rights from the market in 2017, instead of in 2021. At the beginning of 2015, Parliament decided to implement the reforms at the end of 2018; over 2 years earlier than originally planned. In addition, it was decided that the surplus emission rights that will be created as a result of the reform will not be allowed to flow back into the market at a later date. This is essential for durable market reform.

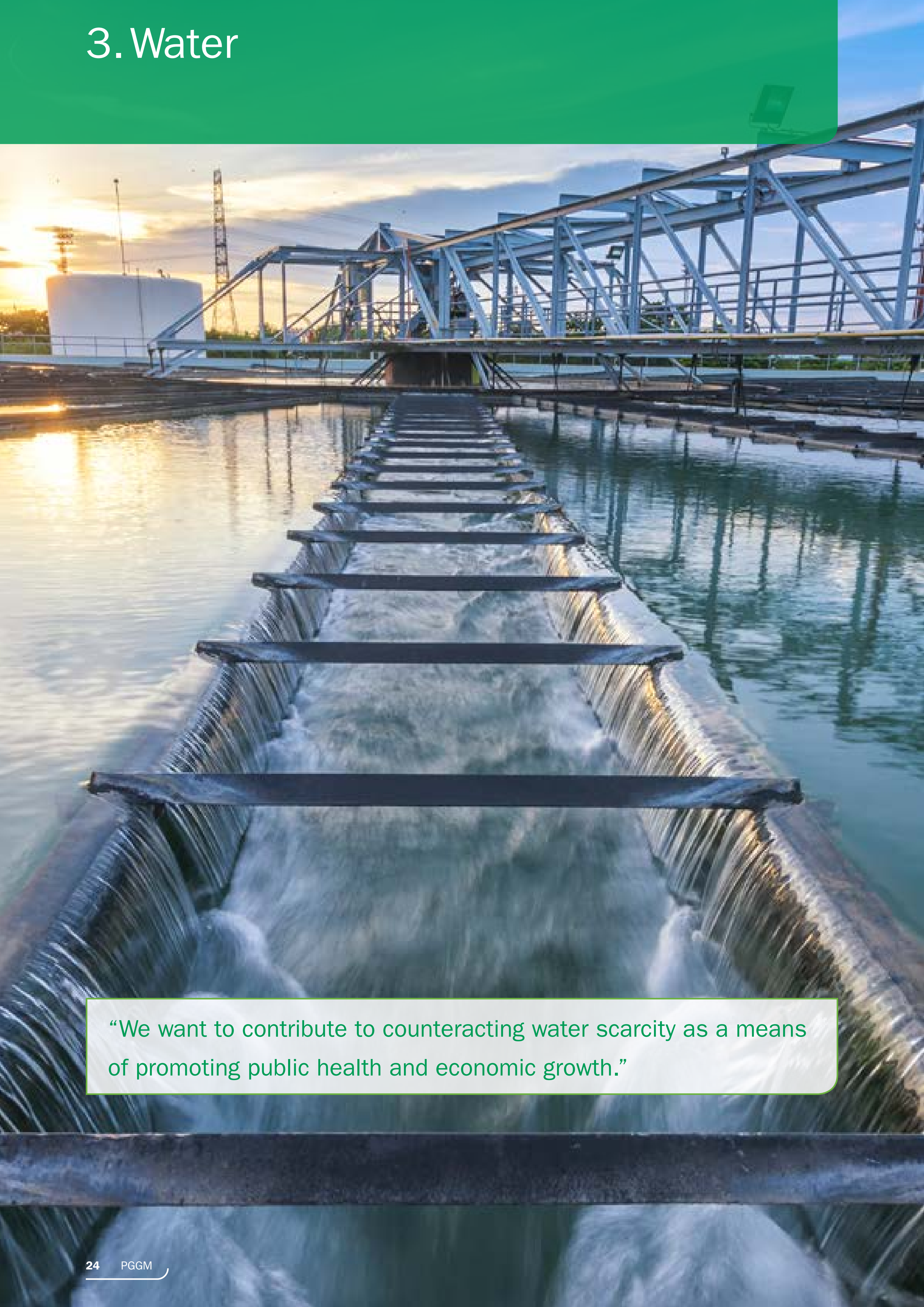
Furthermore, jointly with several other European investors, we urged the Ministers of Finance of the G7 countries to support a high long-term reduction target. The G7 leaders did in fact express the need for a 40 to 70 per cent reduction by 2050 and recognized that this requires a reform of the energy sector, including ending fossil fuel subsidies.

2.4 Outlook for 2016

In 2016, we will start working on the reduction of CO_2 emissions in the equity portfolio. In addition, we will investigate other investment categories to determine how we can measure and reduce the CO_2 footprint. In some cases, we still lack good data, while in other cases the relationship between our investment and CO_2 emissions is less clear, because we do not directly invest in something that emits CO_2. Examples are derivative products or government bonds. This is why we will initially focus on alternative equities, real estate and company bonds investment categories. For these categories we expect to be able to clearly establish the relationship with actual CO_2 emissions, acquire data of sufficient quality and demonstrate that a reduction in the footprint is feasible.

In the area of engagement, over the coming year we will primarily focus on contributing to halving the footprint by urging CO_2-intensive companies to increase their efficiency. Aside from this, we will continue to pursue discussions with energy companies concerning better climate risk management and contributing to the energy transition. Finally, we will further expand our investments in climate solutions.

3. Water



“We want to contribute to counteracting water scarcity as a means of promoting public health and economic growth.”

WHY THIS AREA OF FOCUS

SOCIAL RELEVANCE

4 billion people
are affected by water scarcity for at least 1 month each year[8]

50% of the world population
faces a shortage of clean water by 2030[10]

RELEVANCE TO PGGM AND ITS CLIENTS

Investment opportunities in water supply over the next 15 years:
€ 83 trillion[9]

Risk:
> € 90 billion per year
in losses due to water shortage in the power generation, agriculture and mining sectors[11]

WHAT & HOW

WHAT WE DO

Investing in
Water Solutions

HOW WE CONTRIBUTED IN 2015

Total: **€ 253M**

Invested in
> Water Purification
> Water Conservation
> Clean Water

Results including:
Treated **170M m³** of water.

170 million m³

Impact in 2014 equivalent to:
average annual water consumption of **3.6M** Dutch residents.

WHAT WE DO

Engagement
Market engagement

HOW WE CONTRIBUTED IN 2015

Contribution to development of
Water Information Request:
'How secure is a company's water supply?'

WHAT WE DO

Company engagement

HOW WE CONTRIBUTED IN 2015

Dialogue with **40 companies in the food and textile industry** about the consequences of water shortages in the agricultural sector.

WHAT WE DO

ESG Integration

HOW WE CONTRIBUTED IN 2015

Worked on developing a standard and data for the **'Business value at water risk'**, in order to take this into account in investment decisions.

8 The Guardian (2016): Four billion people face severe water scarcity, new research finds.
9 Bank of America Merrill Lynch (2014): Blue Revolution – Global Water Primer.
10 2030 Water Resources Group (2009): Charting our Water Future.
11 Bank of America Merrill Lynch (2014): Blue Revolution – Global Water Primer.

Clean water is one of the Sustainable Development Goals for 2030. The drought in California that persisted throughout 2015 has increased awareness that water scarcity is an important theme. Not only for society, but also for companies and investors.

3.1 Why Water as an Area of Focus

Water scarcity is an increasing threat to economic growth and to human wellbeing. According to the latest edition of the WEF's Global Risks Report, water is a system risk with a high probability and a major impact on the world economy. Particularly in dry countries, such as China, India and the United States, water supplies are under pressure due to the rapidly growing demand for and the declining availability of water. In 2030, the expected global demand for water will be 40 per cent higher than the supply and almost half of the world population will then be faced with shortages of clean water.

Opportunities and Risks for Investors

Water scarcity also affects the companies in which we invest, especially in sectors that are highly dependent on water, such as power generation and agriculture.
The continuity and profitability of these companies could be negatively affected by a lack of water. For investors this could result in a major drop in the value of shares.

Clear insight into water risks and opportunities shows that water scarcity yields attractive investment opportunities. New technology and innovation is required to make more efficient use of water and to combat water scarcity. According to the Organisation for Economic Cooperation and Development (OECD), € 83,000 trillion will be required over the coming 15 years for investment in water infrastructure[12].

External Developments

The fact that water risks are real and growing became very clear in California in 2015. Due to a lack of snow in the Sierra Nevada and a lack of surface water, groundwater resources are being depleted. The persistent drought in California has made it clear that we are only at the very early stages of developing solutions designed to reduce water consumption. Only now serious steps are taken to measure water availability and consumption. Water prices are gradually rising, which encourages efficient use.
This also makes it possible to invest in water saving and storage solutions, and in the required infrastructure.

In 2015, India too had to contend with the consequences of water scarcity. Due to the negative water availability forecasts, the value of equity invested in the country dropped by $23 billion[13]. About half of the 1.26 billion people in that country runs the risk of a lack of groundwater supplies. This also affects the economy. For example, in 2014, the Coca Cola Company had to halt an expansion in India valued at $24 million due to a delay in acquiring water extraction permits.

3.2 What We Do in the Area of Water

We want to contribute to counteracting water scarcity as a means of promoting population health and economic growth. The objective is to sustainably increase water security for people and companies in regions where the availability, access to and the quality of the water supplies are deficient. We are deploying the following instruments:

- *Investing in Solutions* (Section 3.3.1). We invest in solutions to water scarcity, such as wastewater purification, and water-saving technologies, such as water meters, drought-resistant crops and desalination plants.

- *Engagement*
  - Market engagement (Section 3.3.2). We engage market parties to develop a better understanding of water risks. This concerns risks to company production sites, as well as risks within the supply chain ranging from raw materials to the use of end-products. We encourage market parties to develop relevant and comparable water risk data for general financial information services, such as Bloomberg or MSCI. We are working together with the Carbon Disclosure Project (CDP), the most important initiative for voluntarily reporting water-related information by companies. CDP ranks companies on the basis of water risks and as such unleashes a 'race to the top'. This data enables investors to assign a lower weight to companies with a high dependency on water and low water security.

12 OECD (2016): Shanghai G20: Investment and Infrastructure.
13 Bloomberg Business (2015): A $23 Billion Stock Drop Shows India's Rising Water Risks.

- Company engagement (Section 3.3.3).
  Our dialogue with companies is focused on reducing water risks in the equity portfolio.
  We engage companies in regions with the most serious water scarcity or water pollution (China, India and the US) and in sectors that are highly dependent on sufficient water, such as utilities, mining, oil and gas, food and textiles. We ask companies in these sectors to report on their water risks and water risk management, so that investors can take this into account. In addition, we ask these companies to undertake initiatives designed to increase their water security.

- *ESG Integration.* We incorporate material water opportunities and risks into our investment processes.

3.3 How We Contributed to this Area of Focus in 2015

3.3.1 Investing in Water Solutions

At the end of 2015, we had invested a total of € 253 million in water scarcity solutions on behalf of our clients. In 2014, the total volume of water treated by means of these investments was 170 million m³. This is the total of purified water, reduced water consumption and the volume of clean drinking water supplied. This volume of water is equivalent to the average annual water consumption of over 3.6 million residents in the Netherlands. An overview of all investments in water solutions and their impact is available on our Investing in Solutions web page.

An example of investment in water solutions is an investment made through the Investing in Solutions via Listed Equities (BOA) portfolio in the company Geberit B.V., that produces sanitary systems, pipelines and bathroom fixtures. Since 1998, Geberit has saved 17,900 million m³ in water in comparison to regular sanitary systems. In 2014, these water savings amounted to over 2,000 million m³. This is equivalent to the water consumption of over 43 million people in Western Europe.

3.3.2 Better Data about Water Scarcity as a Systemic Risk

Given the backdrop of the disruptive drought in California, São Paulo and Taiwan, the importance of sound water risk data is increasingly recognised. In part this is evident from the growing number of conferences on water.
In 2015, we participated in several such conferences. For example, in San Francisco we spoke about the water risks for investors and in California we exchanged knowledge with a number of power companies that invest in renewable energy that does not require cooling water. In addition, we participated in the Stockholm World Water Week and in the Global Leadership Award in Sustainable Apparel for well-known fashion brands. In 2015, this Award revolved around the risk of water scarcity and pollution. We contributed to debates on water risks in various sectors, such as the textile industry. In this sector, water scarcity impedes the production of cotton and processing cotton fibres is extremely water polluting.
It is important that this sector draws attention to water security, particularly because the fashion industry is in direct contact with the consumer.

Our view on the importance of water data

By participating in this type of conference and engagement with market parties we contributed to the rapidly growing consensus related to the measurement of water risks and the identification of investible solutions. This consensus is important for combining the various data initiatives into datasets for use by investors. We consider it important to as quickly as possible make sound and comparable data available about the business value at water risk; i.e. the value of companies that is at risk due to exposure to water problems. The problem for investors is that as long as water prices do not reflect the scarcity of clean water, it is difficult to gauge the risk of their investments. In addition, this limits the opportunities for investing in solutions.

A standard water measure

In 2015, we contributed to combining geographical data about water security, originating from the World Resources Institute (WRI), with company data on water dependency and management response, originating from the CDP Water Information Request. The coverage and quality of this data is still insufficient to enable us to take water risks into consideration in our investments. This is why the emphasis in 2015 was on increasing the relevance of company data. Because the willingness among companies to participate in all kinds of surveys quickly drops when it is not clear what investors intend to do with the information, it was important to reduce the CDP Water Information Request to its essence: to what extent is a company assured of a sufficient water supply, now and in the future?

We assisted the NGO Ceres in combining this company data and environmental data into a framework for determining the water risk of a company. A standard format helps investors gain better insight into the water risks in the portfolio, particularly for passive investment strategies. Bloomberg recently developed the Water Risk Valuation Tool for more fundamental analyses and active strategies. We also contributed to this development. At a meeting with institutional investors and banks organised by Bloomberg in London in September 2015, we argued for expanding the coverage of these models to include all companies in the highest water-dependent sectors. An initial success is that Bloomberg is already publishing water scarcity maps (BMAP) that display the location of mines and oil and gas plants.

3.3.3 Engagement in the Agricultural Supply Chain

Under the PRI banner, together with other investors, we are participating in an engagement initiative about water use in the agricultural supply chain. We are engaged in a dialogue with 40 companies in the food and textile industry that potentially are most affected by the consequences of water shortages in the agricultural production sector. We focus on regions where water scarcity is a growing problem. The most relevant regions, crops and companies were identified on the basis of research conducted by the World Wide Fund for Nature and PWC.

Many companies are already focusing on improving the efficiency of their water use in their own production facilities. The step towards making improvements in their supply chains proves to be a major challenge. Little data is available within the chain and raw materials are not always traceable, particularly raw materials that are traded on open markets (in contrast to raw materials that are cultivated under contract). To be able to implement efficiency improvements within the chain requires proximity to production facilities, as well as continuity and quality in the supply of raw materials. Many companies either cannot or do not want to change suppliers. Some, such as General Mills Inc. in Idaho, by contrast are prepared to invest in regional measures and coalitions required for collective actions to solve water scarcity within the supply chain.

In the PRI engagement initiative we completed a first round of discussions with the leaders in this area. It became clear that the traceability of raw materials in specific regions really is the main topic of interest. Using the knowledge we have acquired, we will be engaging the laggards over the coming year. In this first phase of the PRI engagement programme, we especially encourage companies to report on water risks in the CDP Water Information Request. In the follow-up discussions, we call the companies to account for the measures needed to reduce their water risks so that the value chain becomes future-proof.

3.4 Outlook for 2016

In 2016, we expect a steady growth in the interest in water, in part as a component of climate change. Floods, persistent drought and water pollution incidents can be expected to draw the attention of investors to the materiality of water risks. This will boost the development of different technologies, for example for water storage. We will continue to be involved in this in various ways; through engagement initiatives, sector initiatives such as the Water Investor Hub and by investing in water solutions.

The increased interest in water risks also leads to a call for better data about water use, water pollution and water scarcity. The emphasis is expected to be on the relevance of the CDP Water Information Request to investors and on the voluntary reporting by companies. As a supplement to this, we are seeing that increasingly better models are emerging that can be used to supplement the data, ultimately making it possible to integrate the water theme into passive investment strategies.

4. Food

“We want to contribute to increasing global food security through our investments.”

WHY THIS AREA OF FOCUS

SOCIAL RELEVANCE

162 million
undernourished children throughout the world[14]

1.6 billion people
throughout the world are overweight[16]

RELEVANCE TO PGGM AND ITS CLIENTS

Investment opportunities in food production technologies:
€ 74 billion[15]

Risks associated with large-scale food production:
> High footprint
> Human rights violations
> Animal welfare

Reputation risks for companies and investors

WHAT & HOW

WHAT WE DO

Investing in
Food Solutions

ESG Integration

HOW WE CONTRIBUTED IN 2015

Total: **€ 1,208M**
(New in 2015: **€ 165M**)

Invested in
> Efficient food production
> Solutions to combat food wastage

Results including:
Produced **113,000 additional tonnes** of food.

Impact over 2014 equivalent to:
4,700 trucks
filled with food.

Worked on data for **'Access to Seeds' & 'Access to Nutrition'**, in order to take this into account in investment decisions.

14 UNICEF (2016): Malnutrition.
15 UN Food and Agriculture Organization (2009): How to Feed the World in 2050.
16 Worldometers (2016): Food.

‘Zero hunger’ is the second of the 17 Sustainable Development Goals set by the UN for 2030. Defined as access to sufficient and healthy nutrition, there is a great deal of work left to do in this area.

4.1 Why Food as an Area of Focus

It is estimated that there will be 8.3 billion people in the world by 2030. It is a major challenge to provide all of these people with sufficient healthy food. Food security not only concerns quantity and access to food, it also concerns food quality. Low food quality can result in undernourishment caused by a lack of essential nutrients. Furthermore, by consuming too many calories people can also become over-nourished.

The extra challenge is to produce food in sustainable ways. Climate change and water scarcity affect the availability of land for food production. Furthermore, the cultivation of bio-fuels limits the availability of fertile soil for food production. The declining availability of agricultural land means that in 2025, 1 hectare of land will have to feed 5 people, while in 1960 this was only 2 people[17].

Opportunities and Risks for Investors

Not only governments and the business community, but financial institutions as well, have a role to play in improving access to food. Investors can contribute to food security by investing in efficiency improvements in the food chain. It is expected that investments in innovations for sustainable food production will provide good returns. Sustainable food production requires solutions designed to reduce food losses within the food chain and to promote the reuse or recycling of residual waste. It also requires high productivity in terms of the use of the limited agricultural lands with the most efficient possible use of auxiliary resources, such as fertilisers and crop protection agents. Another growing problem is that production and consumption sites are increasingly further apart geographically. This requires new technologies for logistics and increasing food shelf life. To achieve food security over the long term means that there will have to be changes and investments throughout the entire food chain ranging from production, processing, storage and distribution to food consumption.

Large-scale food production and intensive livestock farming pose risks because they have a large ‘footprint’ in terms of climate, water and biodiversity. In addition there are all kinds of risks related to working conditions, land grabbing, food security, genetic modification, animal welfare, pathogens and resistance to antibiotics. Such risks, through their effect on company reputations can pose material risks for our investments in the food chain.

External Developments

Important developments include the possibility of intensifying sustainable food production on the basis of smart technology. This makes it possible to optimise the use of scarce natural resources, such as land, water and energy, and to limit the harmful effects of pollution and waste. Examples include water-saving irrigation technology, drones for crop monitoring and protection, hybrid seeds and logistics improvements that reduce food losses.

The State of Food Insecurity in the World, the most recent report of the UN Food and Agriculture Organization (FAO), seems to be generating interest in food security among bankers and investors. As a follow-up to the Access to Medicine index, work is also underway on an Access to Nutrition index, a ranking of companies in the field of healthy nutrition. This could be of interest to institutional investors, such as we and our clients.

4.2 What We Do in the Area of Food

We want to contribute to increasing global food security. We do this by:

- *Investing in Solutions (Section 4.3.1).* On behalf of our clients, we concentrate on investment opportunities in solutions for:
  - Food production. The areas that come to mind in relation to increasing food production include investments in fertilisers, improved seeds and crop protection agents, and technology for high-yield precision agriculture with reduced auxiliary resources.
  - Access to food. To improve the distribution of food requires good infrastructure, as well as logistics for the storage and transportation of food. We also invest in measures designed to reduce supply chain losses, such as better storage facilities and waste-to-energy technologies.
  - Food quality. To ensure healthy nutrition, we invest in areas such as nutritional supplements and sugar and fat substitutes.

- *ESG Integration.* We incorporate material food opportunities and risks into our investment processes.

17 UN Food and Agriculture Organization (2009): How to Feed the World in 2050.

4.3 How We Contributed to this Area of Focus in 2015

4.3.1 Investing in Food Solutions

At the end of 2015, we had invested € 1.2 billion in food solutions on behalf of our clients. In 2014, an additional 113,000 tonnes of food was produced by means of these investments in comparison to the average production on agricultural land in the same country. This quantity is equivalent to 4,700 trucks of food. An overview of all investments in food solutions and their impact is available on our Investing in Solutions web page.

In 2015, we made € 165 million of new investments in food solutions. The investment in SIG Combibloc Systems GmbH through the PGGM Private Equity Funds concerns a solution for sustainable food packaging. The company globally ranks number 2 in the area of sustainable cardboard packaging systems. The company focuses on packaging for non-carbonated soft drinks, liquid dairy products and food. The packaging extends the shelf life of the food products. Furthermore, they are light weight and thus limit the CO_2 footprint. As the supplier of packaging machines and cardboard, SIG wants to contribute to a high-quality food-security-related product, whereby it differentiates itself from suppliers, especially from Asia, that compete on price.

In addition, on behalf of our clients, we invested in the bonds of PhosAgro AG and Brasil Foods S.A., both through the Emerging Markets Credit Mandate. PhosAgro AG is a Russian company that produces phosphate fertilisers. This fertiliser contributes to bigger and better harvests, and as such to increased food security. The food producer, Brasil Foods, makes a contribution to food security by producing protein-rich foods.

Our view on solutions for food security

In our view, the sustainable intensification of food production and efficiency improvements in the value chain are essential to the food security of a rapidly growing global population. Aside from opportunities we also perceive risks to humans and the environment. Our investments in food security-related solutions must fit into a clear framework that mitigates these risks.

4.3.2 Palm Oil and Forest Fires in Indonesia

We do not have an active engagement programme for the food theme. However, we did monitor developments following the palm oil-related engagement initiative that we concluded at the end of 2014. This initiative was successful in many respects. Since 2012, we have been a member of the PRI Investor Working Group (PRI IWG) on Palm Oil that has exerted pressure on Wilmar International Ltd (Wilmar), one of the leading companies in the palm oil sector. The objective was to achieve sustainable palm oil production. In 2013, this caused Wilmar to adopt a new policy in which it announced that it would no longer cause any deforestation, cultivation of peatland, and exploitation of the local population. The targeted halo effect on other major players in the sector followed shortly thereafter: in 2014, five other major palm oil producers issued a manifest for sustainable palm oil production and a moratorium on deforestation.

Our engagement service provider GES, in part on our behalf, made a number of attempts last year to enter into discussion with the largest palm oil producer in Indonesia, PT Astra Agro Lestari Tbk (Astra Agro). This company has been accused of large-scale deforestation and expropriation. Until recently, Astra Agro did not show any interest in engagement and the organisation did not take any positive steps towards sustainable palm oil production. However, in the summer of 2015, the company announced a new policy focused on sustainable production. In 2016, together with GES, we will monitor whether the company is actually going to implement this new policy.

In spite of these positive developments, we still have no reason to be satisfied. Deforestation and the development of peatland has yet to come to an end. This became clear in the second half of 2015, when forest and peat fires on Sumatra and Kalimantan on some days exceeded the total CO_2 emissions of the US. Schools, hospitals and airports in Singapore and Malaysia were forced to close due to the enormous smoke development. The obstacle we are running into is that initiatives by companies such as Wilmar and other producers, no matter how good, are insufficient to actually solve the problem. Part of the solution lies in the hands of government. Government must enforce the law and should, for example, develop a clear register of land ownership and use rights. Next year, GES will continue to monitor the situation in Indonesia.

4.4 Outlook for 2016

In 2016, we will monitor the situation in Indonesia and with our clients and other parties we will discuss the follow-up steps we could potentially take. Furthermore, engagement service provider, GES, will screen companies in the portfolio for controversies, for example in relation to food. Finally, we will be searching for opportunities to increase investments in food solutions.

5. Health

“Through our investments we want to contribute to access to good healthcare for everyone throughout the world.”

WHY THIS AREA OF FOCUS

SOCIAL RELEVANCE

2 billion people
globally without access to medicines[18] and **affordable healthcare systems** in developed countries are under pressure

Non-infectious diseases kill
38 million people per year;
three quarters of these people are in developing countries[20]

RELEVANCE TO PGGM AND ITS CLIENTS

Opportunities for companies:
Innovative business models for access to healthcare can produce **good returns**[19]

Risk:

High costs of medicine
constitute a financial and reputation risk for companies

Risks for investors

WHAT & HOW

WHAT WE DO

Investing in
Healthcare Solutions

Engagement
Market engagement

Company engagement

ESG Integration

HOW WE CONTRIBUTED IN 2015

Total: **€ 473M**
(New in 2015: **€ 68M**)

Invested in
- **Medicines**
- **Treatments**
- **Care homes**

Results including:
46,000 patients provided with medicines

66,000 cancer treatments

Impact over 2014: **116,000 persons** provided with access to good healthcare.

Call to pharmaceutical sector for **healthcare systems in developing countries**

Novartis makes **15 drugs** against non-communicable diseases available in Kenya, Ethiopia and Vietnam, for **1 dollar per patient per month.**

'Access to Medicine' policy and implementation incorporated into investment decisions.

18 Access to Medicine Foundation (2016): What is the Index?
19 Access to Medicine Foundation (2014): The Access to Medicine Index.
20 World Health Organization (2015): Global Health Observatory (GHO) Data.

Healthcare for all is the third goal of the Sustainable Development Goals for 2030. In 2015, there were important breakthroughs that improved access to healthcare. Yet, 2 billion people throughout the world still do not have access to medicines[21]. Due to our historical connection with this sector, healthcare is an important area of focus for us.

5.1 Why Healthcare as an Area of Focus

Access to good healthcare is not only a basic necessity, it also is a human right. Many countries are currently struggling with the increased greying of the population issue and rising healthcare costs. Particularly in developing countries, a significant portion of the population is adversely affected by diseases that are readily treatable: non-infectious diseases kill 38 million people per year; three quarters of these people are in low to medium income countries[22]. For many countries this is an untenable situation. It is important to find solutions that permanently make healthcare accessible, in developed as well as in developing countries.

Opportunities and Risks for Investors

Investments in the healthcare sector can produce social and financial returns. In developed countries, healthcare must be better and more efficiently organised. Investors can invest in solutions for good and affordable healthcare and encourage companies to play an active role in this. Companies in the pharmaceutical industry and manufacturers of healthcare equipment play a major role in providing good and accessible healthcare. Companies that focus on this area in developing countries will ultimately be well-positioned when economic growth in these countries gathers pace and provides new sales markets. The expectation is that these developing countries over time will produce the middle class of the future that can then be served by the pharmaceutical sector. Improving access to good healthcare in developing countries leads to faster and more stable economic growth.

We expect that companies that do not anticipate better and more efficient healthcare in developed countries and improved access to healthcare in developing countries will be less profitable over time. Increasingly governments will refuse to bear the high cost of certain medicines and medical appliances. The traditional ‘blockbuster’ model in which patented medicines generate high income for the duration of the patent is under pressure. Neglecting to anticipate this could result in making medicines unaffordable. This constitutes a risk to the future income of these companies.

External Developments

In 2015, there were a number of important breakthroughs that should improve access to good healthcare.
For example, the pharmaceutical company Novartis has set up a large-scale access programme (Section 5.3.2), and vaccines against Dengue fever and malaria are in the last stages of development. The latter is expected to have a major impact on the population in developing countries, because Dengue fever and malaria currently claim a lot of victims. According to the World Health Organization (WHO), in 2015, there were some 214 million malaria patients and an estimated 438,000 people died from this illness.

Furthermore, 2015 was characterised by consolidation within the pharmaceutical sector. A number of the largest mergers and acquisitions announced this year was between pharmaceutical companies. However, some of the planned acquisitions in part seem to be motivated by tax considerations. We will continue to closely monitor these developments.

21 Access to Medicine Foundation (2016): What is the Index?
22 World Health Organization (2015): Global Health Observatory (GHO) Data.

5.2 What We Do in the Area of Health

Through our investments we want to contribute to access to good healthcare for everyone throughout the world. This creates better living standards and provides opportunities for people to continue to develop themselves, for companies to tap into new markets and for economies to grow. We work on this by:

- *Investing in Solutions (Section 5.3.1).* By investing in companies that work on strategic solutions for improved (access to) healthcare.

- *Engagement*
  - Market engagement (Section 5.3.2). Every 2 years the AtM Foundation publishes the Access to Medicine (AtM) Index that ranks pharmaceutical companies in terms of their contribution to access to medicine in developing countries. We supply knowledge to the AtM Foundation for the development of an impact measurement tool. We promote this tool within the healthcare sectors. In addition, we work together with a number of NGOs, Foundations and other market parties to stimulate developments in the healthcare sector, particularly in developing countries.
  - Company engagement (Sections 5.3.3 and 5.3.4). By engaging with pharmaceutical companies and producers of medical appliances we attempt to influence their behaviour and convince them of exploiting opportunities and mitigating risks. In addition, we call companies to account for their behaviour, and encourage them to find solutions and develop long-term plans for:
    (a) Improved healthcare affordability: we want to encourage companies to keep healthcare affordable using innovation and new strategies. For example, we speak with them about focusing on specific target groups and afflictions. The emphasis is on the pricing of medicines.
    (b) Access to healthcare in developing countries: strategic solutions are required to deal with the issues. We focus on the major manufacturers in a number of developing countries and discuss the 7 indicators with which access to healthcare can be improved: management, policy, research into and development of medicines against infectious diseases and non-communicable diseases, alignment of prices with local incomes, sharing patents, creating local infrastructure and donations.

- *ESG Integration.* We incorporate material healthcare-related opportunities and risks into our investment processes.

5.3 How We Contributed to this Area of Focus in 2015

5.3.1 Investing in Healthcare Solutions

At the end of 2015, we had invested a total of € 473 million in healthcare solutions. In 2014, more than 116,000 people throughout the world had access to healthcare, or benefited from improved quality of healthcare, by means of these investments. An overview of all investments in healthcare solutions and their impact is available on our Investing in Solutions web page.

In 2015, we invested € 68 million in healthcare solutions. On behalf of our clients and through the PGGM Private Equity Funds (PE), we among other things invested in hospitals in developing countries where there is a growing need for access to reliable healthcare. In addition, we globally invested in institutions for the care of the elderly, specialised pharmaceutical companies, laboratories for pharmaceutical product development and diagnostics, and in various companies in the medical technology sector.

In 2014, PE invested in Gilde Healthcare Services II, a fund that invests in the healthcare sector, primarily in the Benelux and Germany. In 2015, investments were made through this fund in, among others the company Zetacom B.V., market leader in communication systems in the healthcare sector. Zetacom offers a solution to the high costs within the healthcare sector by providing an effective communication system that increases the quality, speed and safety of healthcare. This technology registers the required data, such as a request for help by a patient. As such it takes work off the hands of care workers. More than 28 per cent of the hospital beds in the Netherlands is currently connected to Zetacom.

In addition, we invested in care real estate through the PGGM Private Real Estate Funds. Through the investment in the Amvest Living & Care fund we contribute to the creation of rental care homes in the Netherlands as an alternative to the overcrowded care homes. Forecasts project that in 2040, 1 in 4 Dutch citizens will be 65+. The capacity of care homes is not large enough to be able to accommodate the number of elderly. In 2015, 81 rental care homes were built and rented through means of Amvest. The accommodations are characterised by a limited number of residents, personal attention and high-quality care. Research has shown that small-scale homes enhance the quality of life for the elderly.

Furthermore, we invested in a Hikma Pharmaceuticals Plc. bond through the Emerging Markets Credit Mandate. Hikma is a producer of generic medicines whose patents have expired. This enables the company to make medicines available at good prices, primarily in the Middle

East, as well as in Europe and the US. Hikma consequently has a price-reducing effect on healthcare.

Finally, through the Investing in Solutions via Listed Equities (BOA) portfolio we invest in healthcare solutions. For example, on behalf of clients we own shares in Novo Nordisk AS and in Varian Inc. Novo Nordisk provides medicines for diseases, such as diabetes, an illness that is increasingly prevalent throughout the world. By 2030, almost 8 per cent of the global population will have diabetes[23]. In the Netherlands, almost a million people suffer from diabetes and an estimated 70,000 people are added to this figure every year[24]. In 2014, Novo Nordisk provided 24.4 million patients with a drug to treat diabetes. Varian sells medical systems to treat cancer. These systems were used to administer 35 million treatments in 2014. In addition, Varian provides a contribution to access to healthcare in developing countries.

5.3.2 Access to Medicine (AtM) Conferences

In 2015, we spoke at a number of international meetings and with international market parties about our view on AtM. We were the only investor asked to present our view during a round table meeting in Paris in June. During the meeting, at which virtually all large pharmaceutical companies were represented, we emphasised what we expect from the sector.

Our view on access to medicine

We consider it important for companies in the healthcare sector to contribute to AtM by making healthcare and medicines available and affordable throughout the world. We want the sector to specifically assess the impact of their AtM policy and its implementation. We ask companies to identify their impact and to publicly report on this. AtM is important to us, but it must also be effective and in any case, profitable over the long term. The only way this is possible is by incorporating AtM into the company's strategy. We are calling on companies in the healthcare sector to look for partnerships for this purpose, together, as well as with local governments and NGOs.

In 2015, on the basis of the AtM Index, we spoke with many Japanese companies in the healthcare sector concerning access to healthcare and about the corporate governance required to make this possible. Japanese companies continue to score below average on the AtM Index. With Takeda Pharmaceutical Ltd., the worst performing company on the AtM Index and the largest pharmaceutical company in Japan, we discussed a specific improvement initiative. For example, we proposed a significant budget increase for AtM activities on the condition that this would be approached from a business perspective and not from a philanthropic perspective.
In addition, we called on Takeda to develop an ambitious plan in the field of AtM and to publish this plan.
They agreed to do so in 2016.

To promote access to healthcare we also involve NGOs in our approach and discussions. In June we met with Cordaid. The objective was to assess the role we can play in facilitating a partnership between the pharmaceutical companies in which we invest and Cordaid. The partnership is to focus on the development of a healthcare system designed to improve access to healthcare in developing countries and to share the associated costs. Cordaid's results-based-financing method, in which only projects that are successful continue to receive support, could play an important role in this. We have brought the Cordaid model to the attention of various pharmaceutical companies

5.3.3 Pharmaceutical Companies in Developing Countries

Novartis is going to supply inexpensive medicines to developing countries

At the end of September 2015, Novartis announced that it will develop an access programme with a key focus on non-communicable diseases, such as breast cancer, cardiovascular diseases and diabetes. We encouraged the company to do so by expressing our concern about the inadequate access to medicines, in particular for non-communicable diseases in developing countries. Such diseases are an increasingly larger problem in these countries as the life expectancy of the population improves. For example, according to the WHO there will be 16 million additional cases of cancer in 2020, 70 per cent of which are expected to be in developing countries. Novartis is going to make 15 drugs against non-communicable diseases available in Kenya, Ethiopia and Vietnam, for 1 dollar per patient per month.
This programme is expected to be profitable within 3 years and the plan is to expand this to other countries if it is successful.

23 International Diabetes Federation (2011): International Diabetes Federation.
24 Netherlands Diabetes Association (2010): Diabetes 24/7.

Amgen and Medtronic commit to improve access to healthcare

In September, we spoke with a number of companies, including Takeda, Roche International LLC, Medtronic Inc. and Amgen International Inc. about what they could do to improve access to medicines to the population in developing countries and at the same time tap into new markets. In particular Amgen, the largest independent biotechnology company, still needs to take major steps in this field, while many of their products lend themselves very well to such access programmes. We urged Amgen to adopt a public stance on improving access to their products and to transform this into policy and implementation. This would enable Amgen to play a leading role within the sector. Amgen has committed to start working on this. We asked Medtronic, a manufacturer of pace makers to transform their programmes into specific impact target and other mechanisms, such as a variable pricing policy. Next year, we will monitor developments and continue discussions with these companies.

5.3.4 The Use of Medicines for the Death Penalty: the Mylan Case

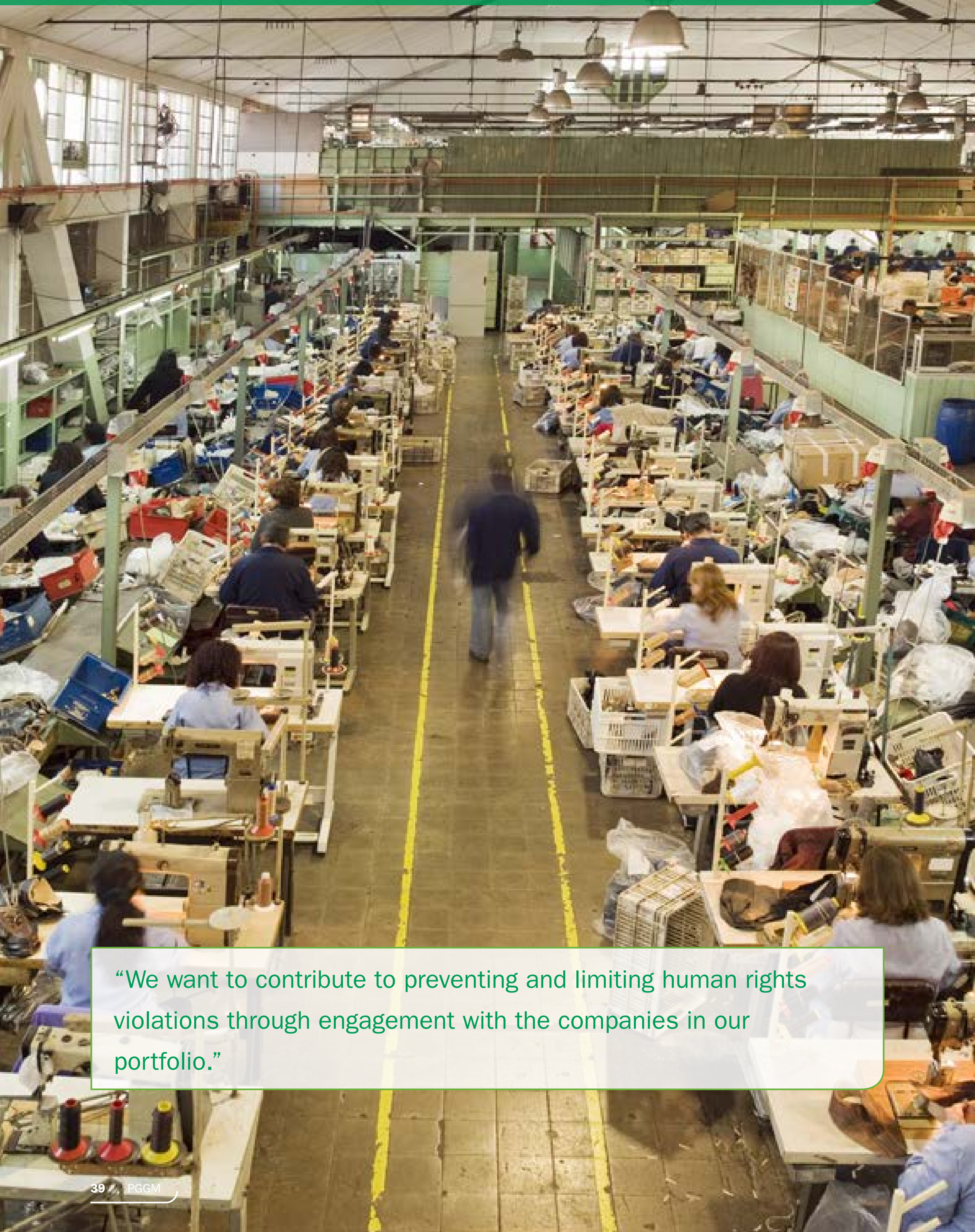
Following more than a year of engagement with the pharmaceutical company Mylan, the company decided in September 2015 to implement control measures to prevent their medicines from being used in executions. A number of jails in the US had purchased the drug rocuronium bromide from Mylan for the purpose of using it in administering the death penalty by lethal injection. At the time Mylan was the only producer of this drug that refused to take measures against its use.

Medicines are intended to make people healthy, not to kill people against their will. This is why we initiated a dialogue with this company on behalf of our clients. When it became evident that a jail in Virginia wanted to use the drug for an execution on 1 October 2015, and Mylan therefore ran the acute risk of involvement, we raised the engagement's level of intensity. This ultimately resulted in an agreement with Mylan's Chief Financial Officer and General Counsel. Following this discussion, the company implemented distribution control measures and an explicit demand to return the drugs was submitted to the jail in Virginia.

5.4 Outlook for 2016

In 2016, we will continue to focus on improving access to healthcare. At the end of 2016, the new AtM Index will be published. It will provide a good indication about progress in the sector. In the run-up to this, we encourage all involved parties to do everything they can to improve their score. Furthermore, we emphasise the need for pharmaceutical companies to improve access to medicines for non-communicable diseases in developing countries. We will also ask companies in the healthcare sectors to focus on innovation that makes healthcare in developed countries better and affordable. We ask pharmaceutical companies to identify the risks of their pricing policies in developed countries. This makes access to medicines an integral part of the strategy of these companies. Finally, we will be searching for opportunities to increase investments in healthcare solutions.

6. Human Rights



"We want to contribute to preventing and limiting human rights violations through engagement with the companies in our portfolio."

WHY THIS AREA OF FOCUS

SOCIAL RELEVANCE

Human rights are violated in **160 countries**[25] throughout the world

Almost 21 million people are victims of forced labour[27]

RELEVANCE TO PGGM AND ITS CLIENTS

Opportunities for companies:
The welfare of employees can result in better performance and lower capital costs[26]
> Higher creditworthiness

Risk:
Crises in organisations due to negative behaviour, such as the **violation of human rights,** can result in a direct drop of **50%** or more in the share price[28]

WHAT & HOW

WHAT WE DO

Engagement
Market engagement

Company engagement

Exclusions

ESG Integration

HOW WE CONTRIBUTED IN 2015

Agricultural sector improves transparency concerning **working conditions** within the supply chain.

22 companies globally are more transparent about their employee relations.

Mining company Goldcorp is going to **work together** with the local Guatemalan population.

114 companies excluded: **1 new** in 2015 due to involvement in controversial weapons whose use can lead to human rights violations.

Exclusion of the government bonds of **13 countries.**

Vision document submitted concerning the **OECD guidelines** and responsibilities of institutional investors.

25 Amnesty International (2016): 2016 Annual Report.
26 Oxford & Arabesque (2015): From the Stockholder to the Stakeholder. How Sustainability Can Drive Financial Outperformance.
27 International Labour Organisation (2014): Profits and Poverty: The Economics of Forced Labour.
28 Freshfields Bruckhaus Deringer (2012): Knowing the Risks, Protecting Your Business.

The Sustainable Development Goals focus on human rights and inclusive development, or growth that can benefit everyone. And that is necessary: in 2015, human rights were violated in 160 countries[29]. It is therefore essential to continue to focus attention on human rights and on adherence to international labour standards.

6.1 Why Human Rights as an Area of Focus

The attainment of fundamental freedoms and human rights is an important condition for achieving sustainable social and economic development, in which vulnerable groups are not discriminated against. Just like companies, institutional investors are also responsible for respecting human rights through their investments. This is laid down in the UN Guiding Principles for Business and Human Rights (UN Guidelines), as well as in the OECD Guidelines.

Opportunities and Risks for Investors

Investors are exposed to risks in various ways when they fail to consider human rights in their investment decisions. Failure to respect human rights can, for example, result in project delays or company fines, especially in sectors with a high risk of human rights violations, such as the oil, gas or mining industry. In addition it can destroy a company's reputation. Research shows that crises in organisations due to negative behaviour, such as the violation of human rights, can directly result in a drop of 50% or more in the company's share price[30]. Aside from reputation and operational risks, companies and investors are also exposed to political and legal risks, for example when legislation is refined following controversies[31]. In reverse, respecting human rights and labour relations provides investors with financial opportunities: employee welfare and good employee relations can lead to improved performance, lower capital costs and consequently to higher creditworthiness[32].

External Developments

In 2015, different international parties devoted special attention to labour laws, supply chain responsibilities, forced labour and vulnerable groups. According to the International Labour Organization (ILO), throughout the world there are 21 million victims of forced labour, particularly including migrants, women and children. Governments, companies and social groups took action in 2015 to address these abuses. A good example is the Modern Slavery Act. This act was adopted last year in the UK and exposes issues of slavery in large companies. Another example is the renewal of the Federal Acquisition Regulation, an American law that has fine-tuned prohibitions concerning human trafficking.

In addition, the UN Guiding Principles Reporting Framework was launched at the beginning of 2015. This is a clear-cut framework for reporting by companies about human rights. This framework has fuelled the dialogue among companies, investors, governments and social groupings about how companies can introduce respect for human rights into actual practice. We provided feedback on this framework (Section 6.3.1).

6.2 What We Do in the Area of Human Rights

We invest in more than 3,000 companies throughout the world. We want to contribute to preventing and limiting human rights violations through the companies in our portfolio. We use 3 instruments for this purpose:

29 Amnesty International (2016): 2016 Annual Report.

30 Freshfields Bruckhaus Deringer (2012): Knowing the Risks, Protecting Your Business.

31 UNEP Finance Initiative & Institute for Human Rights and Business (2016): Human Rights and Sustainable Finance. Exploring the Relationship.

32 Oxford & Arabesque (2015): From the Stockholder to the Stakeholder. How Sustainability Can Drive Financial Outperformance.

- *Engagement*
  - Market engagement (Section 6.3.1). We are doing this primarily in cooperation with other investors. For example, we are involved in various PRI engagement projects. In these projects we not only focus on companies, but also on supply chains and other market parties, agencies and governments. For example, we are focusing on increased standardisation in human rights reporting.
  - Company engagement (Sections 6.3.2 and 6.3.3). We encourage companies in their aim for growth to respect human rights and labour laws, and not to discriminate against vulnerable groups. The engagement programmes are focused on companies in high-risk sectors, such as the oil, gas and mining industry. Our aim is to have the companies in our portfolio implement the UN Guidelines. This means that they do their due diligence, have procedures for redress (access by victims to repair), mitigate human rights risks and report on material human rights issues. We also engage companies in the food and beverage sector. Our aim is to have them take effective measures to prevent the violation of labour laws within their agricultural supply chain. Finally, we are engaging companies where there are human rights or other kinds of controversies. We generally do this via our engagement service provider GES.

- *Exclusions (Section 6.3.4).* We can exclude companies or countries that are involved in serious or systematic violations of human rights. A decision to exclude a company follows an engagement process during which we first try to halt the human rights violations. We immediately exclude companies that are involved in the production of or trade in controversial weapons whose use leads to fundamental human rights violations.

- *ESG Integration.* We implement the UN Guidelines and the OECD Guidelines in various ways in our investment processes. In the passive portfolios we check the investments a few times each year for adherence to human rights. We use the UN Guidelines as a guideline to assess whether companies do enough to control human rights risks. For the active investment strategies we include the human rights-related risks in the due diligence process conducted prior to making the investment. Depending on the outcome we formulate specific agreements with the portfolio managers concerning the management of these risks and reporting on potential incidents. We also refer to the responsibilities concerning human rights and labour standards in our contracts with external portfolio managers.

6.3 How We Contributed to this Area of Focus in 2015

6.3.1 Activities to Regulate Human Rights

Together with over 60 other investors we signed a declaration in 2015 to support the development of the UN Guiding Principles Reporting Framework. We also provided feedback on this framework. Reporting on the implementation of the UN Guidelines provides investors with important information concerning the risks of their investments and therefore key input into our due diligence. The reporting guidelines provide companies with a clear framework for reporting on their human rights policy. The framework aims to have 6,000 companies globally report on various non-financial issues at the end of 2016.

Our view on the responsibility of investors for human rights

We recognise the responsibility of investors in the area of human rights. By having a human rights policy and by taking human rights into account in investment processes, investors can contribute to preventing and reducing human rights violations.
In June 2015, together with APG Asset Management N.V. (APG), MN Services N.V. (MN), RPMI Railpen Ltd. (Railpen) and Universities Superannuation Scheme Ltd. (USS), we submitted a vision document as input into the debate concerning the OECD guidelines for multinationals and the responsibilities of institutional investors within these guidelines. This vision document was presented at the OECD Global Forum on Responsible Business Conduct in Paris. In this document we used examples to indicate how institutional investors can take the risks in the area of human rights and other sustainability aspects into account in different investment categories.
The OECD and their National Contact Points took the input to heart. The document makes an important contribution to the follow-up discussions taking place with the financial sector.

6.3.2 Human Rights in High-risk Sectors

In 2015, the joint PRI engagement programme, focused on human rights in the oil, gas and mining sector, was initiated. On the basis of this programme, together with other investors, we call to account 50 companies within these sectors that run a high risk of human rights violations. The aim of the program is to encourage these companies to take effective measures to prevent violations within their sphere of influence by implementing the UN Guidelines. We are a member of the programme's Steering Committee and are actively involved in the dialogue with 10 of the 50 companies in our portfolio. The PRI will evaluate the initiative in 2016 and follow-up steps will then be determined.

6.3.3 Working Conditions

PRI engagement programmes for better working conditions

We are a member of the Steering Committee of the PRI Labour Standards Working Group. 35 investors throughout the world participate in this working group.
This engagement programme focuses on working conditions in the agricultural supply chain, at major food suppliers, supermarkets and other key parties in the chain. We make companies aware of the potential risks they run if they fail to deal with the working conditions-related issues and fail to be transparent on this.

The PRI engagement programmes constitute a good platform to collectively quickly respond to incidents and effect improvements. An example of this is the dialogue that the PRI Labour Standards Working Group quickly initiated with the fish producer Charoen Pokphand (CP) Foods. This happened after the Guardian reported on serious incidents of modern slavery within the supply chain. As a result of this, the Working Group discussed the forced labour conditions with the management board of CP Foods. This motivated the company to become more transparent and to engage in a constructive dialogue about slavery issues with investors and other stakeholders, such as supermarkets to which the company supplies shrimps. CP Foods has assured shareholders that it will no longer purchase shrimps from boats that do not have passports and work permits for their employees. In addition, the company is investigating whether all employees have a valid contract.

Furthermore, in 2015 we participated in a PRI engagement programme on employee relations with 27 large companies in the retail sector. This programme was successfully completed over the course of 2015. The aim was to increase awareness among directors about the positive influence of committed employees on financial performance. Research shows that committed employees stay longer, are more productive and provide better services. As a result company turnover can grow more than 2.5 times as fast. We encouraged companies to provide insight into turnover, absenteeism, training costs and employee satisfaction and to improve their scores on these indicators. After 16 months we prepared a status report: 22 of the 27 companies provided better insight into these indicators. The PRI is looking into a possible follow-up initiative.

Labour standards in developing countries

Working conditions often leave something to be desired in developing countries. In 2014, the Finnish paper producer and forester Stora Enso Oyj was accused of child labour among its suppliers in Pakistan. That caused GES to intensify its engagement initiative and to ask management to make tangible improvements to ways in which Stora Enso can prevent such involvement. The company consequently implemented clear improvements. For example, in February 2015 they published a human rights risk analysis and today there is a clear process designed to identify risks and introduce improvements. GES is keeping a finger on the pulse to see whether the recommendations are actually being implemented, particularly in Pakistan and China.

Labour standards in western countries

We also assess employee working conditions in Europe. Employee health and safety is generally well provided for in Western Europe. This is also the case at LBC Tank Terminals LLC, an international tank storage company. We are represented on the Safety, Health, Environment & Quality Committee of LBC's management board through the PGGM Infrastructure Funds. Together with APG, we contributed to having LBC elevate its CSR programme to a higher level. The company has increased the scope to a broader sustainability plan that goes beyond meeting legislated regulations. We recommended that they adhere to certain standards to affect this, such as the UN Global Compact and International Finance Corporation Guidelines. LBC is widely deploying the programme in order to create a collective culture across its different sites.

6.3.4 Exclusions

In 2015, a small number of changes were implemented to the list of company exclusions. One new company was added on the basis of new evidence of involvement in controversial weapons: the Korean company S&T Dynamics that manufactures machines capable of laying and activating mine fields. These machines are also suitable for anti-personal land mines as a result of which the company meets our criteria for exclusion. All other changes to the list of exclusions were due to acquisitions, name changes or because the company was no longer listed on the stock exchange. In 2015, the exclusions based on controversial weapons and tobacco made a slight negative contribution to the financial performance of our clients within the listed equity category. In 2015, the exclusions implemented following engagement, especially in the area of human rights, made a slightly positive contribution to the financial performance of our clients in this category.

We did not add any names to the list of exclusions for government bonds in 2015. We did, however, discuss the sanctions imposed on Yemen and Burundi in 2015; internally as well as with the ABRI. In this respect we concluded that the in both cases the sanctions are aimed at individuals. Only UN and/or EU sanctions that are imposed on an incumbent government or the country as a whole are reason for excluding the government bonds of the country in question.

The sanctions against Russia also was the subject of discussion in 2015. This sanction was prolonged in the summer. Here too we decided not to add the country to the list of exclusions for government bonds. A key reason for this is that the sanction includes a provision that gives EU member states the option of deciding for themselves how to limit their relations with Russia. We have opted not to exclude Russian government bonds because the political establishment is still working on a diplomatic solution. We do not want to get ahead of this process by taking a formal position against Russia.

6.4 Outlook for 2016

In 2016, we want to reinforce the partnerships with other investors and collectively work on improving the integration of human rights into investment processes. Furthermore, we are continuing the current engagement programmes. Finally, in 2015 we worked on the PGGM human rights policy in which we indicate how we implement our responsibilities in the area of human rights not only within PGGM Vermogensbeheer B.V., but also within PGGM N.V.'s Procurement and Human Resources departments. We will publish this policy in 2016.

7. Corporate Governance

"We want to contribute to improving the quality, sustainability and continuity of companies and markets."

WHY THIS AREA OF FOCUS

SOCIAL RELEVANCE

Corporate governance is a precondition for **sustainable socioeconomic development.**

The equity markets in countries with corporate governance standards are **3 times as large** in relation to the GDP as those in countries without corporate governance standards[34]

RELEVANCE TO PGGM AND ITS CLIENTS

Opportunity:
investing in companies with good corporate governance can result in a **better risk-return profile:**
These companies in the US outperformed the S&P 100 index by **12.7%** over 3 years[33].

Risk:
unsound corporate governance can result **investment losses**[35]

WHAT & HOW

WHAT WE DO

HOW WE CONTRIBUTED IN 2015

Engagement
Market engagement

Contributions to **corporate governance standards** worldwide.

Italy will not extend the act for simplified implementation of **double voting rights.**

Company engagement

All **management board members were replaced** following an **accounting scandal** at the real estate company VEREIT.

Voting

Globally, we voted against the management recommendations on **2,142 remuneration proposals.**

Legal Proceedings

Reached a settlement of **USD 100 million** in the class action against HP (page 51).

ESG Integration

Incorporated **Remuneration Guideline** in investment decisions.

33 HSBC (2016): Social & Governance: Investing Responsibly – Governance Matters.
34 Claessens & Yurtoglu (2012): Corporate Governance and Development – an Update.
35 Oxford & Arabesque (2015): From the Stockholder to the Stakeholder. How Sustainability Can Drive Financial Outperformance.

In 2015 , corporate governance was the topic of public debate in the Netherlands, as well as abroad. In particular, developments and discussions concerning remuneration issues received a great deal of attention.

7.1 Why Corporate Governance as an Area of Focus

Well-functioning markets and companies are a condition for sustainable socioeconomic development and contribute to better financial and social returns.

Opportunities and Risks for Investors

Corporate governance enables us, as investor, to exert influence in support of the sustainability, continuity and social added value of companies. Good corporate governance is essential for creating long-term company value for all its stakeholders, including shareholders. The financial returns of the investments are highly dependent on effectively operating markets and entities. In reverse, poor corporate governance constitutes a risk to investors.

External Developments

Multiple voting rights in the Netherlands

The Netherlands is one of the few countries in the world that nowadays permits a dual share class structure. This means that companies listed on the Dutch stock exchanges are permitted to issue different share classes with different voting rights. For example, a company may issue a share with one vote to certain shareholders and issue a share with multiple voting rights to other shareholders. This governance structure gives some shareholders more influence over the company than other shareholders.

Position of minority shareholders

The shareholders structure of Dutch listed companies has become increasingly concentrated in recent years. In comparison to 10 years ago, the number of Dutch listed companies with a controlling shareholder, i.e. a party that holds more than 30 per cent of the voting rights, has almost doubled[36]. The company and the controlling shareholders have a special duty of care towards minority shareholders. Eumedion, the Dutch representative of the interests of institutional investors in the field of corporate governance and sustainability, in which we are a participant, has prepared a position paper about the position of minority shareholders in the Netherlands. We contributed to this and share Eumedion's opinion that the protection of minority shareholders in companies with a controlling shareholder must be improved.

Our view on double voting rights in Europe

The one-share-one-vote principle constitutes an important pillar of what we consider good corporate governance. It is applied in developed markets throughout the world. As a long-term investor we would like to see this principle applied in all markets. Europe encourages long-term and engaged ownership. Proposals have been put forward, for example in Italy and France, for the introduction of instruments, such as loyalty dividends and voting rights, to encourage this. However, we are currently not convinced that such instruments will have the intended effects – in fact, on the contrary.
We perceive a significant risk that, for example, loyalty shares with additional votes will be abused. This can harm the interests of minority shareholders in relation to major shareholders, which significantly outweighs the reputed benefits. Eumedion has recorded the objections on behalf of its participants, including PGGM, in a letter to the European Commission during the debate of the European Shareholder Rights Directive (SRD).

7.2 What We Do in the Area of Corporate Governance

We want to contribute to improving the quality, sustainability and continuity of companies and markets. We aim for an appropriate and coherent system of checks and balances within markets and companies in the relationships between the executive board, the supervisory board and shareholders with a set of standards governing behaviour, the exercise of powers and the associated accountability. We use 4 instruments for this purpose:

36 Eumedion (2015): Position Paper: Position of Minority Shareholders in Companies with a Controlling Shareholder.

- *Engagement*
  - Market engagement (Section 7.3.1). We are in discussion with governments and other market players in relation to improving governance standards. The focus is on the Netherlands and on the 2 largest markets in the portfolio: the US and Japan.
  - Company engagement (Sections 7.3.2 and 7.3.3). We engage in a constructive dialogue with companies when we see that corporate governance improvements are required or feasible. We focus on different areas, such as independent oversight, shareholder rights, transparency and remuneration. We want companies to counteract excessive remuneration. The focus here is also on the Netherlands, the US and Japan.
  We complement this with engagement through partnerships and on an ad-hoc basis, for example when we respond to consultations or controversies.

  Sometimes we decide not to respond to controversies. In 2015, a scandal came to light at Volkswagen AG in which it turned out that the company had tampered with the CO_2 emission data of its diesel cars. Another controversy occurred at Toshiba Corp involving a bookkeeping scandal. We are a shareholder in both listed companies. Yet, we opted not to undertake an active engagement process with these companies or to make any public pronouncements about these controversies. First, because the risk of poorly operating corporate governance had already materialised in these companies. Second, Volkswagen and Toshiba themselves had already announced or taken measures to improve their corporate governance and culture. Furthermore, many other institutional investors had already entered into a dialogue with these companies reducing the necessity for us to become active in this respect as well. Finally, the political establishment and the media extensively involved themselves in the debate. We therefore decided to apply our engagement capacity where we were more likely able to make difference on the basis of our portfolio and our areas of focus. Making the right decisions is not always easy; i.e. to focus our attention on those areas where we can have the greatest impact. We assess this on a case-by-case or on a controversy basis and do not preclude the possibility that our assessments may lead us in a different direction over the coming years.

- *Voting (Section 7.3.4).* We vote in an informed manner at AGMs throughout the world. In the Netherlands we address the meeting and vote at AGMs on topics such as strategy, sustainability, transparency, shareholder rights and remuneration. In addition, we focused on the Eumedion's spearheads for 2015: integrated reporting and informative, effective in control statements, and the function of internal audit.
  Our objective is to vote at all of the AGMs of the companies on our voting focus list and at almost all AGMs of all companies in which we invest on behalf of our clients.

- *Legal proceedings (Section 7.3.5).* When we suffer investment losses, we may limit these losses by exacting compensation through legal proceedings. In such proceedings we also attempt to bring about improvements in corporate governance.

- *ESG Integration.* Where necessary we incorporate material corporate governance opportunities and risks in all investment processes.

7.3 How We Contributed to this Area of Focus in 2015

7.3.1 Corporate Governance Standards

In March 2015, the New York Times published an article that we submitted together with Railpen about a sample policy in which we describe the responsibilities of American corporate management boards in relation to their dialogue with investors and other stakeholders. Since American cooperates are reticent to develop policy that sets out these responsibilities, we took the initiative to do so ourselves. We received many positive responses to this initiative.

Market knowledge and good relationships are essential to be able to conduct efficient and effective engagement in Asia. For this reason we are an active member of the Asian Corporate Governance Association (ACGA), a partnership of investors and listed companies for the purpose of improving corporate governance standards and practices in the region. Under the banner of the ACGA we issued a response to the consultation of the Securities and Futures Commission (SFC) in Hong Kong for a Code for engaged ownership, i.e. a Stewardship Code. Hong Kong is an important market for our investments and it serves as an example for the development of corporate governance in the region. In our response to the consultation, we indicated who, in our view, should take on the responsibility within the investment chain and we proposed a reporting methodology.

In the Netherlands, Mrs. Else Bos, CEO of PGGM N.V., is one of the members of the Monitoring Commission Corporate Governance Code (MCCG). The objective of this Commission is promoting the use and topicality of the Dutch Corporate Governance Code (Code). In January 2015, MCCG published a monitoring report concerning compliance with the Code in 2013. The conclusion was that compliance is high and that in the Netherlands, self-regulation in the area of corporate governance works. At the beginning of 2016, MCCG published a proposal for a new Code and initiated a consultation on this. A few key themes include long-term value creation, effective management and supervision, remuneration and culture. In particular the introduction of culture as an explicit component of corporate governance is new, not just in the Netherlands.

In an initial response to the consultation document, Eumedion indicated that it is delighted that listed companies are tasked to better explain how they create value over the longer term and whether they are able to achieve this on the basis of their existing earning models. Eumedion also applauds the demand to describe the strategy to create that value, how the internal culture contributes to this, what the key opportunities and risks are, and how the risks are mitigated. In addition, Eumedion had a number of critical comments on the draft Code that they will publish at the beginning of 2016. During the consultation period we will make a contribution to Eumedion's response.

Our view on acceptable remuneration structures

The remuneration guideline, which went into force on 1 January 2015, describes our expectations and that of our clients about acceptable remuneration structures. Our key message is that we no longer support remuneration practices that primarily seem to be aligned with the interests of directors and consequently favour excessive remuneration practices. Furthermore, the alignment between remuneration and financial performance contributes to the formation of complex remuneration systems. In our view we are entitled to expect directors to have the intrinsic motivation to deliver the desired results. They are paid for this as part of their fixed salary. In our view, companies must adopt a broader stakeholder perspective focused on the long term in their remuneration policy. A remuneration policy formulated on the basis of this principle results in creating financial return over the long term. Under ideal circumstances, this principle also positively contributes to resolving social problems. It in any case ensures that the company's decision-making does not have a negative effect on society. Furthermore, we believe that companies should abandon the current practice of measuring remuneration against peers. Instead, companies should base such remuneration on appropriate internal criteria.

7.3.2 Remuneration Guideline for Portfolio Companies

At the end of 2014, we published our PGGM Remuneration Guideline for Portfolio Companies (Remuneration Guideline) on PGGM N.V.'s website. The objective of this guideline is to take a position against the most excessive forms of remuneration by listed companies. We define remuneration as the fixed salary, the variable remuneration in shares or in cash and the non-financial allowances. The latter category, for example, contains the pension scheme and the grant of housing. In 2015, we shared and discussed the remuneration guideline with other investors to encourage them to speak out against excessive remuneration the same way. In summary, the goal of this guideline is to:

(1) Curtail excessive remuneration.
(2) Only permit variable compensation if financial performance meets or exceeds a challenging level that also provides due consideration to the impacts on society and the environment.
(3) Support a long-term perspective.
(4) Simplify the payment structure.

Last year we initiated the implementation of the remuneration guideline through engagement and voting. We have ranked the companies in the portfolio on the basis of the most excessive remuneration practices. This has resulted in a list of the top 10 companies. We started a dialogue with these companies.

Excessive remuneration in the US: Oracle

In 2015, we continued our efforts to improve corporate governance at the IT company Oracle Corp. The remuneration policy for its directors is among the most excessive in the US. Both of the company's CEOs in 2015 received a USD 63 million salary, representing a salary increase of 41 per cent in comparison to the year before. This in spite of the fact that the remuneration proposal was rejected by the majority of shareholders for the fourth year in a row in 2015 due to its excessive size. In an open letter we wrote to the management board at the beginning of 2015, published in the Financial Times, we advocated for a remuneration structure that shareholders could relate to. Although Oracle is not obliged to adjust its remuneration structure, the fact that the company has done nothing in previous years about the strong signal it received from its shareholders is of concern.

In 2015, together with the British pension fund Railpen, we submitted a shareholder proposal in which we proposed an adjustment to the governance guidelines and asked Oracle to enter into a dialogue with shareholders. This request was granted in September 2015, when we were invited for the first time to a meeting with Oracle's 2 directors. We discussed the remuneration practices and the management board's attitude towards its shareholders. The board has since entered into a dialogue with several shareholders, but still falls short of implementing the changes they are discussing. At the end of 2015, the AGM voted on our shareholder proposal. The majority of independent shareholders voted in favour. This is a unique occurrence, given that a proposal of this kind has never before been submitted in the US. Unfortunately, the proposal did not garner a majority of votes since Oracle's founder and majority shareholder, Larry Ellison, voted against. In 2016, we will investigate if there any follow-up steps we could take.

Voting on the basis of the new Remuneration Guideline

In 2015, the remuneration guideline was incorporated into our PGGM Voting Guidelines. This concerns the following topics:

- Obligation to adopt a clawback scheme whereby remuneration provided on the basis of incorrect information can be recovered.
- Abolition of share options as an instrument of remuneration.
- Halt automatic vesting (the process whereby variable remuneration becomes unconditional) when a director voluntarily resigns after a merger or takeover.

These adjustments have resulted in a substantial number of votes against remuneration proposals: globally we voted against the management recommendation in 2,142 remuneration proposals. This represents 66.3 per cent of the total number of votes on remuneration proposals. In the US, this figure is even higher and we voted against the management recommendation in 79 per cent of the cases (714 times).

We also take a position against excessive remuneration at AGMs in the Netherlands. At the AGM of the Koninklijke KPN N.V. (KPN) of April 2015, we expressed our opinion on the extraordinary discretionary bonus awarded to the CEO and to a former director. Due to the public uproar, the CEO had already voluntarily surrendered his bonus. During the AGM we argued that we are not a proponent of extraordinary discretionary bonuses. We made an urgent appeal to KPN, to eliminate the possibility of granting extraordinary bonuses. KPN indicated that it will give due consideration to our remarks.

7.3.3 Engagement on Corporate Governance in Real Estate

In many companies in the real estate sector, we are a top 10 shareholder. This enables us to exert a relatively high degree of influence on these companies. Prior to the AGM season we approached the real estate companies to inform them about the PGGM Voting Guidelines. Especially the adjustments made pursuant to the new remuneration policy were food for discussion. Most of these discussions were continued during the year and are hopeful. For example, the clawback regulations are since being implemented on a wider scale. In terms of variable option-based remuneration, a number of companies has switched to shares granted on the basis of performance criteria.

One of the American real estate companies with whom we met on multiple occasions last year is VEREIT (formerly called ARCP). This company became embroiled in an accounting scandal in 2014. As a result we urged the founder to depart, the management board to be renewed and the remuneration policy to be changed. Nick Schorsch, ARCP's founder and CEO, stepped down in 2014, however, the renewal of the management board appeared to be in danger of falling by the wayside. This is why in 2015 we wrote an open letter to the company. This ultimately resulted in the replacement of all management board members, who had been appointed at the time of the old chairman of the board. Furthermore, all of our other demands concerning the corporate governance structure and remuneration were granted.

7.3.4 Voting against Loyalty Voting Rights

As explained in Section 7.1, we are an advocate of equal voting rights, or the one-share-one-vote principle. In 2015, the European Commission put forward proposals for the introduction of loyalty dividends and voting rights, i.e. double voting rights. Some member states, such as France (Loi Florange), and Italy have already adopted laws that make double voting rights possible. In Italy, in the first quarter of 2015, together with other investors and professors, we managed to prevent a legal regulation concerning the simplified implementation of double voting rights from being extended. In France, we called on the 13 listed companies in the CAC40 Index that had not yet taken any measures against the automatic implementation of double voting rights to take steps to do so. Some of them, such as Unibail-Rodamco SE and Capgemini Group, replied that they will take the necessary measures so as to maintain the one-share-one-vote principle. At the AGM of these 2 companies, the proposals concerning the preservation of this principle were adopted with a large majority. At the French companies Vivendi SA, Vinci SA and Orange SA, we submitted shareholders proposals together with other investors for the purpose of counteracting loyalty voting rights. The proposals unfortunately just missed getting the votes needed to safeguard the one-share-one-vote principle.

7.3.5 Legal Proceedings

In 2015, we continued our efforts to introduce a system of collective compensation proceedings into the Dutch legal system for the settlement of mass claims. A procedure of this nature enables groups of shareholders to recover financial losses they have incurred due to the attributable non-performance of a company. The Dutch Ministry of Justice organised a meeting of experts on the preliminary draft of the Collective Compensation Proceedings. In our view this preliminary draft had too many practical objections. This is why, together with Leiden University, we proposed an alternative on behalf of Eumedion participants. Among other things, we proposed the introduction of a lead plaintiff into the Dutch legal system, i.e. a lead plaintiff who acts on behalf of a group of defrauded investors. This structure offers the possibility of achieving finality (a final ruling) when multiple group actions are taking place at the same time. The advantage of this to the company is that it is not confronted with an accumulation of claims by different parties concerning the same issue. The key counter-parties and the Ministry itself, responded favourably to our proposal. During a stakeholder meeting in November, it appeared that our recommendations are broadly supported. The Ministry of Justice is currently transforming the recommendations into a legislative proposal and will publish this in the spring of 2016.

Settlement of Hewlett-Packard lawsuit

In June 2015, PGGM announced that PGGM and Hewlett-Packard Company (HP) have agreed to settle a 2012 securities class action for USD 100 million. The settlement resolves a federal securities class-action lawsuit arising out of HP's acquisition of Autonomy Corporation plc (Autonomy) in 2011. In 2013, the Court appointed PGGM as the Lead Plaintiff in the Action. In May 2013, PGGM filed a so-called Amended Consolidated Class Action Complaint (Complaint) against HP and certain of its current and/or former officers and directors, alleging that the defendants had violated the federal securities laws by making a series of materially false statements and omissions in connection with and following the Autonomy acquisition regarding Autonomy's accounting practices and valuation. The complaint furthermore alleged that when the true facts concerning Autonomy's accounting improprieties and over-valuation were revealed to investors, ultimately culminating in an USD 8.8 billion write-down of the goodwill associated with Autonomy on November 20, 2012 HP's stock price plummeted, damaging HP shareholders severely. PGGM is pleased that it was able to effect a settlement on behalf of investors in this class and that it was able to play an important role for its clients from the perspective of active shareholdership. We consider it essential that listed companies inform their shareholders timely and adequately about material information that might impact shareholder's decisions.

7.4 Outlook for 2016

In 2016, we will assist Eumedion in finalising the position paper concerning the position of minority shareholders. In the field of engagement, we will primarily focus on remuneration policy in the US in 2016. Furthermore, we will continue to work in the US with various parties on the development of a voluntary corporate governance code. We strive to publish specific proposals in 2016. In Asia, we will focus on independent directors, the protection of minority shareholders and related parties transactions. We expect that several countries in Asia will introduce a Stewardship Code or hold corporate governance consultations, to which we would like to contribute. Finally, we will investigate the possibility of excluding companies on the basis of corporate governance, and the attendant consequences.

8. Sustainable Financial System

"As an institutional investor we want to contribute to the cultural change required for a sustainable financial system, beginning with ourselves."

WHY THIS AREA OF FOCUS

SOCIAL RELEVANCE

The size of the Dutch financial sector is **278% of GDP**
> risk to the economy[37]

Following the credit crisis, the Dutch government injected **tens of billions of euros** in public funds into rescuing banks[38]

RELEVANCE TO PGGM AND ITS CLIENTS

We and our clients form **part of the financial system**

RISK

A stable financial system is essential to achieving the pension ambition: due to the financial crisis, pension fund **returns declined by 35%**[39]

WHAT & HOW

WHAT WE DO

ESG Integration

Engagement
Market engagement

Company engagement

HOW WE CONTRIBUTED IN 2015

To contribute to a sustainable financial system ourselves, we reviewed our **own behaviour.**

The **Enhanced Disclosure Task Force** analysed the annual reports of banks: banks indicate that they have adopted **82%** of the recommendations.

Analysed **14 counterparties** in terms of their contribution to a sustainable financial system.

37 Accountant (2015): Financial Sector in the Netherlands and Europe too Large.
38 Follow the Money (2014): The Bank Crisis; What if Dijsselbloem and Knot are not in control?
39 Allianz Global Investors (2009): International Pension Issues 4|09.

Confidence in the financial sector remains low. Increasing regulations must prevent a repeat of the crisis. The sector itself is also evaluating how to make the financial system more sustainable.

8.1 Why Sustainable Financial System as an Area of Focus

A stable financial system is fundamentally important to restoring society's confidence, which was seriously damaged by the 2008 financial crisis. The crisis had a major impact on society and on economic growth. We define a sustainable financial system as a long-term sustainable, transparent and healthy financial system. A financial sector that is subservient to the real economy will create value in a broader social context on the basis of a long-term perspective.

Opportunities and Risks for Investors

A stable financial system is a necessary condition to be able to realise the long-term pension ambitions of our clients. We invest on international financial markets with a long-term horizon in order to achieve the returns required for a good pension for the participants of our clients.

A financial system focused on the short term and exclusively focused on its own interests entails major risks. The financial crisis shows that non-sustainable products or financial institutions have a destabilising effect and can quickly lose the confidence of consumers and the market. During the crisis we discovered that this also affects the returns of pension funds: they declined by 35 per cent[40].

External Developments

Increasingly, the financial sector wants to make a positive contribution to the stability of the financial system. For example, in 2015, the UN started a number of initiatives to analyse global best practices that contribute to a sustainable financial system (UNEP Inquiry for a Sustainable Financial System). The UNEP report gives various examples of developments in countries in which the financial sector and regulatory authorities take the lead in contributing to financing a sustainable economy. For example, they cite the obligation of financial institutions to incorporate climate risks in the stress tests for banks and insurance companies.

At the same time, we feel increasingly constrained in our role due to the side effects of the unconventional monetary policy. The low interest rates have resulted in a significant decline in risk premiums, which discourages taking long-term positions. Furthermore, financial markets have become dependent on central banks to such an extent that they give more consideration to the pronouncements of policymakers than adding value to the real economy. This creates new imbalances that put the sustainability of the system under pressure.

Laws and regulations

For years, institutions, such as the World Economic Forum (WEF) have been pointing to climate change as a major economic risk. However, its incorporation into the risk management framework of companies and their financiers is still limited. Regulators and supervisory authorities united in the Financial Stability Board (FSB) are urging financial institutions, credit rating agencies and auditors to take action. The creation of the Task Force on Climate-related Financial Disclosures (TCFD) by the FSB is an important step in this regard. In 2015, the Dutch regulatory authorities, the Netherlands Authority for the Financial Markets (AFM) and De Nederlandsche Bank N.V. (DNB), announced that they would include climate risks in their supervision of the financial sector.

At the end of September 2015, the European Commission published the Capital Markets Union Action Plan. Part of this action plan is a legislative proposal regulating the controversial system of securitisation. Securitisation is a technique that enables financial institutions to pool similar loans and sell them to investors or use them to purchase credit enhancement. In its proposal, the European Commission strives to promote Simple, Transparent and Standardised (STS) securitisation.

8.2 What We Do for a Sustainable Financial System

As an institutional investor we have various roles within the financial sector, such as our pension fund provider role for our clients, business partner for other players in the sector and shareholder on the basis of investments in financial institutions. On the basis of all of these roles, we want to contribute to a sustainable financial system. A cultural change is required in order to make the financial sector sustainable. This applies to our own

40 Allianz Global Investors (2009): International Pension Issues 4.

Our view on regulating securitisation

When the economic crisis erupted in 2008, it became clear that – in the absence of adequate supervision and regulation in the US – securitisation had resulted in unhealthy transaction structures in which the interests of originators were not aligned with those of investors. This gave securitisation as a technique a bad name. Improved regulation of this market and stimulating the creation of healthy transaction structures contribute to a more stable financial system. We believe that there are many healthy securitisation transactions that work well for lenders and investors, and consequently for the economy.

In synthetic securitisation, banks retain the loans on their balance sheet. We invest in synthetic securitisations with a risk-sharing character, which we call risk-sharing transactions, in which the bank retains at least 20 per cent of the credit risk. Partly as a result of this the bank has a clear interest in the performance of the underlying loans. By sharing credit risk with banks in healthy ways, these transactions can contribute to a more sustainable financial system. This is because the credit risks are shared with parties outside the banking system, which gives the bank room to grant more loans. Furthermore, this form of securitisation is perfectly suited for risk sharing in the real economy, such as loans to SMEs and trade finance. Globally, we are one of the largest parties in the area of synthetic securitisation. This is why we have called on regulators in Brussels to incorporate synthetic securitisations into their regulations, as these securitisations lend themselves well to standardisation, and by adopting sound STS criteria it is possible to contribute to healthy transaction structures, a more sustainable financial system and to the real economy.

organisation, as well as to the parties with whom we partner or in which we invest on behalf of our clients. We use the following instruments for this purpose:

- *ESG Integration (Section 8.3.1).* We critically evaluate our own behaviour and that of our counterparties. Where necessary and possible, we adjust our behaviour in order to contribute to a sustainable financial system. We are prepared to link consequences to actions on the part of parties with whom we collaborate or in whom we invest, when these actions compromise a sustainable financial system. Parting ways with counterparties and external managers is not excluded in this respect.

- *Engagement*
  - Market engagement (Section 8.3.2). We aim to improve standards in the financial sector. We make our knowledge and experience available through networks involving other financial institutions and attempt to effect change in behaviour in close cooperation with them. For example, we are actively involved in the Focusing Capital on the Long Term (FCLT) initiative, in which institutional investors and companies develop specific proposals to devote greater attention to long-term value creation instead of focusing on short-term objectives. In addition, we are the co-initiator of the CIO Exchange, a Dutch network of Chief Investment Officers of institutional investment institutions. Within this network we put various items concerning a sustainable financial system on the agenda.
  - Company engagement (Section 8.3.3). The focus is on the most important counterparties, the top brokers and banks, that demonstrate behaviour in conflict or at odds with a sustainable financial system. We focus on matters that we are able to influence in order to achieve substantive change, such as the remuneration policy and corporate governance. Our aim is to motivate counterparties to adopt sustainable business models in which the client interests are key.

8.3 How We Contributed to this Area of Focus in 2015

8.3.1 Behaviour

In 2015, we reviewed our own behaviour in comparison to our view of a sustainable financial system. During the past year we organised a number of internal working sessions with our portfolio managers of various investment categories to discuss how we can better contribute to making our daily activities more sustainable. We discuss the outcomes of these sessions internally and with our clients in 2016. Next, we formulate additional specific actions that enable us to contribute to a sustainable and stable financial system, for example, concerning the tension between the use of short-term benchmarks versus our long-term obligations.

Furthermore, we analysed the 14 most strategic counterparties in terms of their contribution to a sustainable financial system. We took a look at transparency, stability and sustainable behaviour for the long term. The outcome serves as a guideline for the engagement meetings with these financial institutions in 2016, in which we will advise them as to how they can contribute to a sustainable financial system. On the basis of the experience gained from these meetings, we will continue to develop the analysis tool. We will conduct a new measurement at the end of 2016.

Our view on private equity

Private equity investments generate high returns and constitute an important form of financing for companies that are not able to attract capital in public markets. We have stated our views on private equity in a position paper. The private equity managers appointed by us must invest the pension money in accordance with the principles that are important to Dutch citizens: they must provide due consideration to reasonable working conditions, the environment and company management that accounts for the culture within which the company operates and with respect for local labour relations.

In 2015, private equity was a topic of public debate in the Netherlands. The edge of the public debate was fed by the controversies that occurred in relation to some private equity investments. In such controversies, the interests of shareholders and employees or the wider surroundings collided, and the balance at times shifted too much to the short-term interests of the shareholder(s). PvdA member of the Lower House, Henk Nijboer, last year focused attention on these excesses in private equity and submitted 12 proposals designed to improve the private equity sector. Nijboer pointed to the important function of private investments for economic activity in our country and shared our analysis that private equity constitutes an important alternative to bank financing. We support his proposals to make private equity more transparent, put greater focus on the long term, lower costs and make them more easily explainable, and link remuneration to sound performance for the capital provider.

8.3.2 Alliances

To champion greater transparency on the part of financial institutions, we joined various alliances, such as the FSB's EDTF and the International Accounting Standards Board (IASB). In 2015, we contributed to the EDTF recommendations concerning the implementation of IFRS 9, which requires banks to take into account expected losses, even before a credit event, such as a missed coupon payment or a downgrade, has taken place. In addition, we participated in the EDTF User Group that analysed banks' annual reports and reported on the quality of disclosures. At the end of 2015, the EDTF published its last progress report and was subsequently abolished. In the 3½ years that the EDTF was active, it achieved significant results: banks indicate that they have fully adopted 82 per cent of the EDTF's recommendations. As such, the degree of transparency has more than doubled compared to 3 years ago.

8.3.3 Compensation Guideline for External Managers

At the end of 2014, we published the PGGM Guideline for the Compensation of Financial Service Providers (Compensation Guideline) on PGGM N.V.'s website.
The objective of this guideline is to take a position against the most excessive forms of compensation by external managers. Compensation includes the fees that external managers receive for the services they provide and the compensation received by individuals for the work done.

The guideline, that went into effect on 1 January 2015, reflects how we implement this view in negotiations with financial service providers. The most important instrument that we developed for this purpose is the Fee Protocol. This protocol includes agreements concerning acceptable fees and compensation structures for each investment category. If an external manager or a deal does not comply with this protocol, we can decide not to proceed. We not only look at the level of the compensation, but also at the transparency of the compensation structures. In our meetings with external managers we encourage them to be more transparent. In 2020, we will end the collaboration with external managers who at that time are not fully transparent about their compensation structures.

We also enter into a dialogue about compensation as a shareholder of financial institutions. In May 2015 we attended ING's AGM. Two agenda items had to do with remuneration: a change in the remuneration policy for the Executive Board and an increase in the variable remuneration for a certain group of global personnel.
We had consulted in advance with the Chairman of ING's Remuneration Committee about the first agenda item.
In part as a result of this, ING made a number of improvements to its proposal, such as compensation in

Our view on acceptable compensation

There can be opposing interests in terms of costs and return among capital providers and financial service providers. This is primarily expressed in 3 ways: high compensation paid in spite of poor or moderate performance, excessive agent fees and/or compensation structures that lack a sufficient focus on the long term. We believe that there must be an alignment of the interests among capital providers and financial service providers and believe that progress in these 3 areas will create this alignment, and will result in a cost reduction. Our philosophy is as follows:

- We believe in reward for real performance.
- We believe that remuneration incentives with focus on the long term are effective.
- Compensation structures must be clear and transparent and aligned with the objectives of the capital financier (i.e. no high compensation for poor or mediocre performance).

We want to combat excessive fees and compensation. This requires a phased approach. Acceptable compensation varies by individual, market and investment category. For example, fees and compensation in private equity generally are higher than in other categories. The financial assets of partners, management or employees of external asset managers can also be achieved on the basis of individual investment profits. This way they can realise their assets in the same way as they realise returns for the institutional investor, namely through (high-risk) investments. We do not focus on limiting such returns, as long as they are not in conflict with the interests of our clients.

the form of performance-related shares instead of cash. As a result we were able to vote for this proposal during the meeting. In case of the second proposal the situation was different. For the top 1 per cent of its personnel, ING wanted to increase the maximum ratio between fixed and variable remuneration from 100 to 200 per cent. This is not consistent with our aim of counteracting the negative effects of variable compensation. Avoiding the perverse incentives of high variable remuneration discourages high risk taking. This is why we voted against this proposal. Most shareholders voted in favour, however, as a result of which the proposal was accepted. ING has indicated that it is open to follow-up discussions with us on compensation policy and other governance themes.

8.4 Outlook for 2016

In 2016, we will discuss the analyses of our most strategic counterparties with them. We will continue to implement the implementation guideline for counter-parties with whom we do business. In addition, we will work out the proposals concerning our own behaviour in further detail and where relevant discuss them with our clients. Finally, we will share our knowledge about our plans and experiences with DNB and other regulators in order to contribute to a sustainable financial system.

9. ESG Integration across the Areas of Focus

"We want to contribute to the transition of responsible investment from a niche to a common practice in the financial world.

A number of activities in the area of responsible investment is not linked to a specific area of focus, but cuts across the Areas of Focus. This chapter describes these theme-transcending ESG activities within the various investment categories.

9.1 ESG Integration in Public Markets

9.1.1 The PGGM Equity Funds

Since 2013, we have been using an in-house developed ESG Index designed to apply ESG factors within the 3 passively managed PGGM equity funds, in developed markets, emerging markets and alternative strategies in developed markets. This index consists of a selection of companies drawn from the FTSE All World Index on the basis of their ESG performance. All companies are assigned an ESG score, after which, for each sector, the companies that are ranked in the bottom tenth percentile in terms of their performance are excluded from the ESG Index. These companies consequently fall outside the investment universe of the PGGM funds. We send these companies a letter to inform them of this and indicate what they would be required to do to move up in the rankings. Where necessary we enter into dialogue with these companies. That led to a few good improvements in 2015. For example, the Philippine financial institution SM Investments Corporation and the Taiwanese IT company MediaTek improved their ESG transparency as a result of this dialogue by publishing CSR reports.

Just like last year, analyses of the results over the past few years show that the ESG scores of the ESG Index are higher than those of the FTSE All World Index. It is still too early to make any definitive pronouncements about the risk-return profile of the ESG Index. However, we do apply a narrow bandwidth within which the ESG Index is allowed to deviate from the FTSE All World Index. The ESG Index has been staying within this range. Any performance-related effects are therefore slight.

9.1.2 Investing in Solutions through Listed Equities

In 2015, on behalf of our client Pensioenfonds Zorg en Welzijn (Pension Fund for the Healthcare and Social Sectors (PFZW)), through the Responsible Equity Portfolio we invested in the equity of stable profitable listed companies in Europe and North America that are strongly positioned in terms of ESG factors. A differentiating factor is the major shareholder positions that enable us to play an active influential shareholder role. Up until the end of 2015, the portfolio performed well, and the portfolio is now in transition: effective from 2016 it will become the Investing in Solutions via Listed Equity (BOA) portfolio.

The new portfolio will only include companies that specifically contribute to solutions related to climate change and a reduction in pollution and emissions, water scarcity, food security and healthcare. We have compiled a universe of companies that meet these criteria. Part of the BOA portfolio will be managed externally. Similar to investments in solutions in other investment categories, we also measure the impact of the investments for the BOA portfolio. In cooperation with Harvard University, City University of New York and the external manager, we are developing a measurement methodology for this purpose (see Section 1.3.1 and our Investing in Solutions web page). Effective from 2016, we will report on the total impact we realise through the BOA portfolio.

9.1.3 Bonds

In 2015, the Credits Team started to produce a quarterly ESG report that addresses the key ESG-related topics in relation to the individual positions in the fund. In addition, the lead portfolio manager of the PGGM Credits Fund is a member of the Green Bond Principles Group (GBP) of the International Capital Market Association (ICMA). Finally, in 2015, the fund invested in the green bonds of ABN AMRO and ING described earlier in this report.

In 2015, the Emerging Markets Credits (EMC) Team started to implement its positive impact portfolio. At the end of 2014, it was decided to make up 10 per cent of the total EMC portfolio with investments in solutions for climate, water, food and health. In 2015, 6 companies were classified as investments in solutions. Together these companies made up approximately 4 per cent of the total EMC portfolio at the end of 2015. In addition, EMC twice reviewed the complete portfolio for ESG risks at company level in 2015. Furthermore, the team added an ESG Monitor to its quarterly reporting in 2015.
This Monitor addresses the ESG-related developments in the portfolio. Finally, EMC is a member of the PRI Fixed Income Engagement Working Group. Via this Working Group we entered into a dialogue with several credit rating agencies to explore how the ESG analysis can be better integrated into credit analysis.

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9.2 ESG Integration in Private Markets

9.2.1 Private Equity

On the private equity market, we developed a system for the PGGM Private Equity Funds in 2015, that measures the ESG risks of the fund's investments, as well as the fund manager's ability to deal with these risks. The Private Equity Team (PE Team) is going to use the system for the first time in 2016 with the objective of acquiring better insight into the ESG risks within the fund portfolio and to better manage these risks. The PE Team worked together with other investors on a next version of the ESG Disclosure Framework that enables us to better monitor ESG implementation by external PE managers. Finally, the team introduced an ESG incident report to report and monitor incidents and to further limit their impact. This concerns incidents at companies in the portfolio that involve fatal injury, material impact on the environment or a material infringement of the law.

9.2.2 Real Estate

In 2015, with the PGGM Private Real Estate Funds (PREF) and the PGGM Listed Real Estate PF Fund (LRE) we entered into a partnership with GeoPhy, to map out the real estate portfolio in terms of quality and CO_2 emissions (Section 2.3.1). In addition, each year we ask external real estate fund managers to complete the elaborate GRESB (Global Real Estate Sustainability Benchmark) questionnaire. This enables us to compare real estate funds in terms of ESG policy, management, implementation and performance and to encourage them to make improvements. Figures 6 and 7 display the PREF and LRE scores in 2015. Both funds significantly improved their scores in comparison to last year. In addition, they show an outperformance in comparison to the global GRESB average, which includes 700 real estate companies and funds.

This year, for the first time, PREF was qualified in its entirety as a Green Star, the most sustainable category. This is because the number of Green Stars in PREF has significantly increased, both in terms of absolute numbers and euros. The size of the Green Stars in PREF currently is € 5.2 billion, more than double in comparison to 2014 (€ 2.3 billion). In addition, many of the PREF's strategic external managers were pronounced 'sector leader' in the region in which they operate.

The majority of the companies in the LRE fund that are included in the GRESB survey are also Green Stars. As a result LRE itself also qualifies as Green Star and the fund scores significantly better than the average GRESB score of listed real estate companies. The Green Star investments amount to € 4.9 billion and this amount is still increasing. The fact that LRE scores well does not mean that the objectives have been attained. Especially Japanese and Chinese companies are lagging behind in the GRESB survey. In 2016, this will therefore be a subject of engagement again. In this respect we primarily focus on companies where implementation is not keeping up with the adopted policy, or where ESG policy is lacking altogether.

9.2.3 Infrastructure

Following the success of GRESB, of which we are a co-founder, a new international benchmark for the infrastructure investment category was launched in September: GRESB Infrastructure. Together with 8 other investors we were also involved at the start-up of this benchmark. In the meantime, several other investors have joined this initiative. GRESB Infrastructure was launched in Europe and in the US. The benchmark will rank global infrastructure investments on the basis of ESG factors. The first results will be published in 2016.

9.3 ESG Integration in Externally Managed Mandates

We include aspects in the field of responsible investment in the selection process of external managers. In 2015, this was in particular relevant in the selection of a manager for the BOA Mandate. In addition, we monitor how external managers implement responsible investment for our clients. In 2015, we assessed the extent to which a number of external managers were implementing the new Socially Responsible Investment policy of one of our clients. On the basis of this assessment, we made suggestions for improvements during the quarterly meetings with these managers. In addition, we met with the external manager of the PGGM Developed Markets Equity PF Fund to discuss voting behaviour, particularly in the area of management remuneration. Effective from 2016, we will structurally discuss voting behaviour during the semi-annual management review.

Figure 6. PREF GRESB scores

Figure 7. LRE GRESB scores

Outlook for 2016

2016 is characterised by transitions. First, the energy transition must be accelerated to achieve the objectives of the Climate Agreement set for 2050. Effective from 2016, we will be implementing the CO_2 reduction methodology within the investment portfolio. We will be starting with the equity portfolio, in which we will be selling the shares of the most CO_2-intensive companies and enter into a dialogue to encourage them to reduce their CO_2 emissions. We will be reinvesting the freed-up capital in the shares of companies that are more CO_2 efficient. In addition, we will investigate other investment categories, such as company bonds and debentures, to determine how we can measure and reduce the CO_2 footprint.

The transition from the millennium objectives to the Sustainable Development Goals provides investors with a direction for investing into solutions in global issues. On behalf of our clients, we will further expand the investments in multiple investment categories, via public equity, as well as via private markets. Investing in solutions at an institutional scale and measuring the returns of their social impact is still in its infancy. This is why, in 2016 and beyond, we will continue to improve our approach and we will be working with other financial institutions and academics to as much as possible harmonise definitions, criteria, indicators and measurement units.

Internally, the transition from responsible investment to the investment and advisory chain is a key theme. 2016 is the first transition year in which we are making the team fully accountable for responsible investment within their own areas of operation. The aim is to have responsible investment fully internalised by all teams by the end of 2017. This enables us to provide our clients with even better service in the area of sustainability and to strengthen the risk-return profile of the investments.

Furthermore, we are creating increased focus within our activities in the area of active ownership: voting and engagement. We are more specifically looking to align both instruments: we will further reinforce our engagement efforts by means of voting rights, for example by submitting shareholder proposals where necessary and in reverse, voting will more quickly lead to engagement. We will do this within the selected Areas of Focus. For example, refusal by a company's management board to take action against human rights violations could lead to a vote against the reappointment of that board. A better alignment of these instruments and greater focus benefits our influence and clout as active shareholder on behalf of our clients.

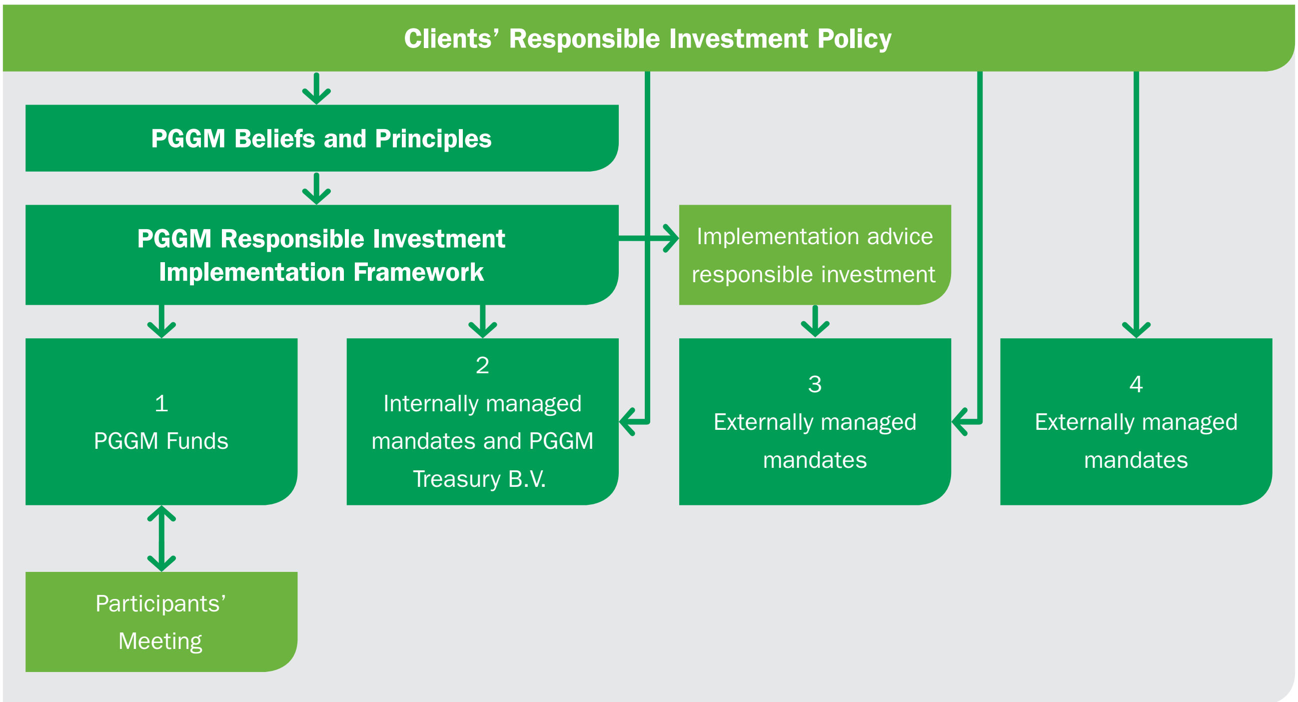
Finally, we want to contribute to the transition of responsible investment from a niche to a common practice in the financial world. This requires intensive cooperation, not only among financial parties, but also with the business community, supervisory authorities and regulators. For example, in 2016, we will intensify collaboration in the area of long-term investment through our membership in the FCLT. FCLT develops tools and approaches that support investors and companies in creating value over the long term. In the Netherlands we want to contribute to the dialogue among companies, banks and investors in the area of sustainability. We will organise a meeting of Dutch CIOs of large financial institutions in which long-term value creation, sustainability and collaboration are key themes. Within the PRI we will contribute to working groups focused on a sustainable financial sector and on further enhancing the mainstream character of responsible investment. Through these types of joint initiatives we expect to make another small step towards the dot on the horizon: a sustainable world in which the beneficiaries of our clients can enjoy a good pension.

Appendix 1 Implementation of Responsible Investment

The PGGM Beliefs and Principles and the PGGM Responsible Investment Implementation Framework, supplemented by implementation guidelines for individual investment categories, apply to all investment and advisory activities that fall within the following three categories:

(1) We manage various PGGM mutual funds in which multiple clients participate, as well as the activities of PGGM Treasury B.V.
(2) We manage internal mandates for individual clients.
(3) We provide implementation advice to clients that invest in externally managed mandates via PGGM.

We also manage external mandates to which the PGGM Beliefs and Principles and the PGGM Responsible Investment Implementation Framework are not directly or indirectly applied (4).



Appendix 2 Overview of Instruments by PGGM Fund

The table below illustrates the application of the 6 instruments from the PGGM Responsible Investment Implementation Framework within the PGGM funds. The degree to which the implementation guidelines have been implemented for these activities varies by fund.

Application of PGGM Responsible Investment Implementation Framework to PGGM Funds
■ applicable; ● (partially) implemented

	Investing in Solutions	ESG Integration	Voting	Engagement	Legal Proceedings	Exclusions	AUM (€ billions)
PGGM Developed Markets Equity PF Fund	■ ●*	■ ●	■ ●	■ ●	■ ●	■ ●	21.2
PGGM Emerging Markets Equity PF Fund	■ ●*	■ ●	■ ●	■ ●	■ ●	■ ●	6.4
PGGM Developed Markets Alternative Equity PF Fund	■ ●*	■ ●	■ ●	■ ●	■ ●	■ ●	18.7
PGGM Listed Real Estate PF Fund	■	■ ●	■ ●	■ ●	■ ●	■ ●	10.3
Bonds							
PGGM Emerging Markets Debt Local Currency Fund***		■ ●				■ ●	6.8
PGGM Credits Fund	■ ●	■ ●				■ ●	5.4
PGGM Government Bond Fund***		■ ●				■ ●	0.4
PGGM High Yield Fund	■	■ ●				■ ●	3.5
Other Liquid Funds							
PGGM Commodity Fund		■ ●				■ ●	6.0
PGGM Fund of Hedge Funds****		■ ●				■ ●	0.0
PGGM Treasury B.V.	■ ●	■ ●				■ ●	
Private Markets Alternative Funds							
PGGM Infrastructure Funds	■ ●	■ ●				■ ●	3.9
PGGM Private Equity Funds	■ ●	■ ●				■ ●	5.4
PGGM Private Real Estate Funds	■ ●**	■ ●				■ ●	10.1
Total for PGGM Funds							**98.3**

* Implemented in 2015, on the basis of the Investing in Solutions via Listed Equities (BOA) portfolio.

** Implemented in 2015.

*** The PGGM Emerging Markets Debt and Government Bonds Funds in principle are well-suited for investing in solutions. However, we currently do not have a mandate to apply such investments within these funds.

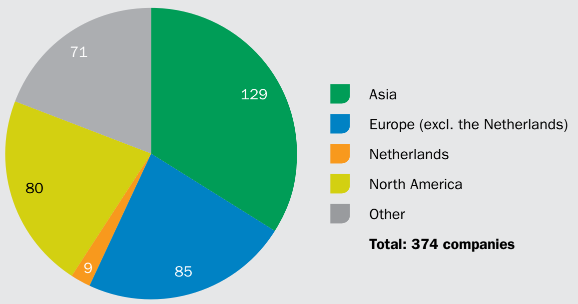
**** The PGGM Fund of Hedge Funds was entirely phased out in 2015.

Appendix 3 Engagement

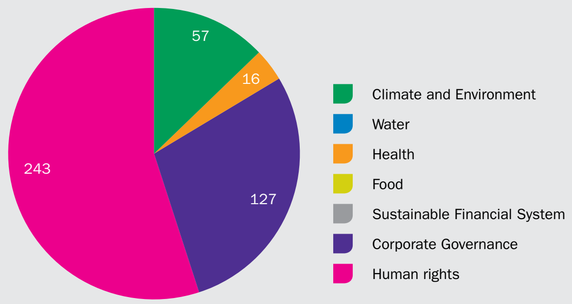
In 2015 we maintained a dialogue with 374 companies. We carry out part of these engagement activities ourselves. In addition, we outsourced part to the engagement service provider, GES. This enables us to reach a broad range of the companies in the portfolio. The reported figures reflect our activities combined with GES' activities. At 21 companies we achieved a total of 36 engagement results, or steps taken by these companies focused on ESG improvement. The number of results is lower than last year. This is due to the fact that GES has greater focus in its engagement activities than our previous engagement service provider F&C. The topics that GES discusses with companies generally concern difficult issues in the area of human rights or environmental infringements. To achieve the desired result consequently may require greater effort over a longer period.

In addition to engagement focused on companies, we seek dialogue with market parties such as legislators and regulators. In 2015, we engaged in a dialogue with 34 market parties, most of which were aimed at improving corporate governance standards in markets in which we invest. We achieved 5 engagement results for 5 market parties. We are involved in engagement activities throughout the world. These activities are spread across various subject areas (see following diagrams).

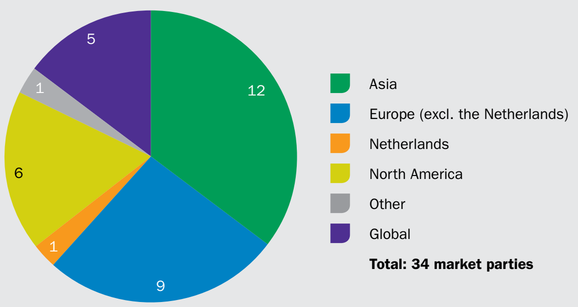
Distribution of Engagement Activities with Companies by Region in 2015



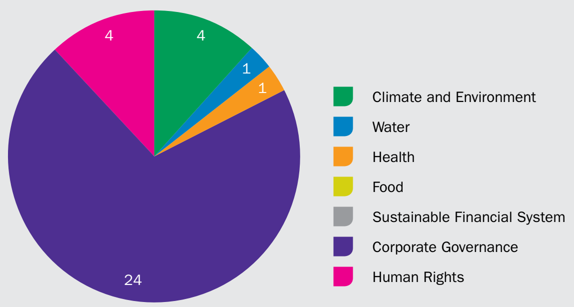
Distribution of Engagement Activities with Companies by Area of Focus in 2015



Distribution of Engagement Activities with Market Parties by Region in 2015



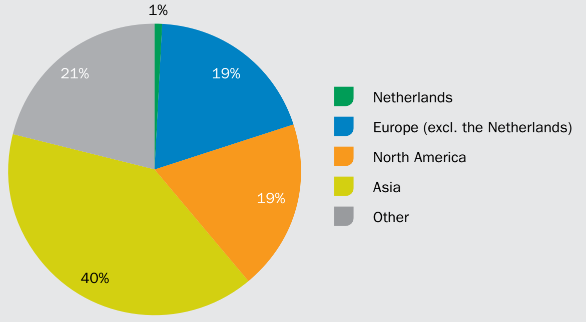
Distribution of Engagement Activities with Market Parties by Area of Focus in 2015



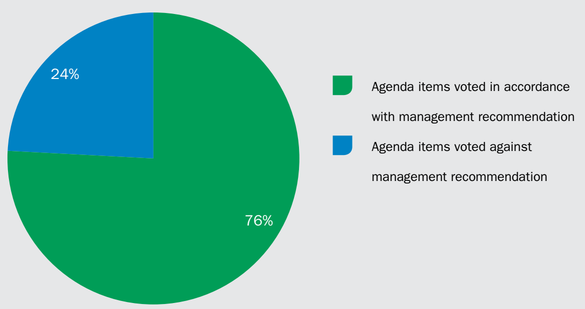
Appendix 4 Voting

In 2015 we voted at 3,529 shareholder meetings on a total of 40,234 agenda items. We most often voted at shareholder meetings in Asia (40 percent). This is because the portfolio contains a relatively high number of companies located in this region. In 24 percent of all votes we voted against the management recommendation. Most of the management proposals (54 percent), as well as most shareholder proposals (39 percent) dealt with the appointment of directors.

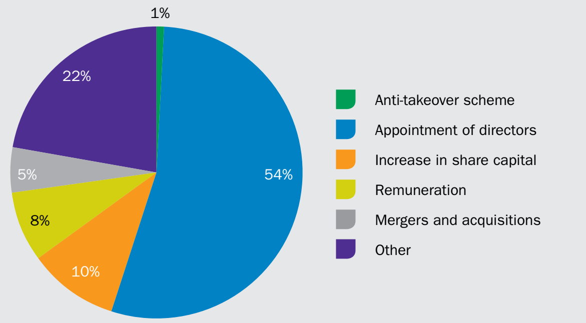
Distribution of Shareholder Meetings by Region in 2015



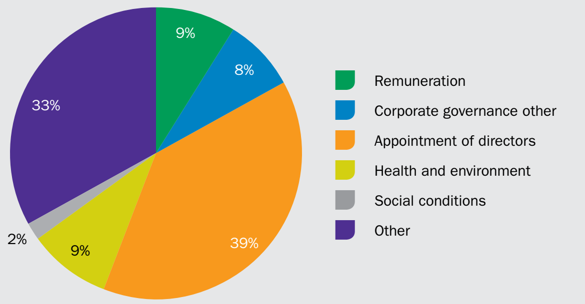
Distribution of Voting Behaviour by Agenda Items in 2015



Distribution of Management Proposals in 2015 (by category)



Distribution of Shareholder Proposals in 2015 (by category)



Appendix 5 Accountability

In this 2015 Annual Responsible Investment Report, we provide information for our clients, their participants and other interested parties on the activities undertaken in the field of responsible investment in 2015. Where we refer to clients in this report we mean both the clients participating in the PGGM funds and the clients for whom we manage mandates. If we state that we invest in a certain portfolio, we always mean that we do so on behalf of our clients.

The information in this annual report only covers responsible investment activities carried out by PGGM Vermogensbeheer B.V. More extensive information on PGGM N.V. and PGGM Coöperatie U.A., and about sustainability at the PGGM N.V. level is available on PGGM's website and in the 2015 PGGM N.V. Annual Report. This PGGM 2015 Annual Responsible Investment Report provides information on the 2015 financial year running from 1 January to 31 December 2015.
The report is a progress report and does not provide a comprehensive overview of activities and current investments. It is limited to the responsible investment activities carried out by PGGM Vermogensbeheer B.V. in 2015. Unless stated otherwise in the respective sections, the data has been obtained from our financial and Responsible Investment databases.

Reporting and Transparency

Transparency is an important element for us. We aim to be a reliable partner and provide clarity about what we do and why. We publish our Annual Responsible Investment Report every year on our website. We also provide quarterly reports to our clients and write online blogs that explain our position on specific topics. Finally, we also enable our clients to provide their participants and other stakeholders with annual information on the investment portfolio and on the parties with which we do business on their behalf.

Selection of Material Subjects

As an asset manager with a widely diversified portfolio, it is not easy for us to define the most essential subjects that affect our activities in the field of responsible investment. We have selected the relevant subjects on the basis of a materiality analysis, for which we consulted various media sources. The materiality of the subjects for us as an asset manager and our clients has also been taken into account.

Guidelines Followed

In compiling the PGGM 2015 Annual Responsible Investment Report we have adhered to the international reporting principles of the GRI G4. The GRI principles relate to both substantive choices (materiality, involvement of stakeholders, the sustainability context, completeness) and the quality of the reporting (balance, comparability, accuracy, timeliness, clarity, reliability).
We did not follow the GRI to the letter in this report.
We adhered as much as possible to the reporting principles specified in the GRI G4 in compiling this annual report. The GRI G4 does not fully apply to this annual report, because this report concerns asset management activities and is not relevant at the PGGM N.V. level.
Further information on the sustainability activities at the corporate level can be found in the PGGM N.V. Annual Report, which fully adheres to the GRI G4 reporting principles.

The 6 principles of the PRI were also used as a reporting guideline. As a signatory to the PRI, we also report on our activities annually to the PRI. The corresponding public report is available on PRI's website.

Audit

KPMG Sustainability has evaluated the PGGM 2015 Annual Responsible Investment Report. See the Assurance Report in Appendix 6.

Appendix 6 Independent Auditor's Assurance Report

To the Readers of the 'Responsible Investment Report 2015' of 'PGGM Vermogensbeheer B.V.'

Conclusion

We have reviewed the 'Responsible Investment report 2015' (hereafter: the Report) of PGGM Vermogensbeheer B.V. (further 'PGGM'). Based on our review, nothing has come to our attention to indicate that the Report is not presented, in all material respects, in accordance with the internally developed criteria as described in 'Appendix 5 Accountability'.

Basis for our conclusion

We conducted our engagement in accordance with the Dutch Standard 3000:"Assurance Engagement other than Audits or Reviews of Historical Financial Information". We do not provide any assurance on the achievability of the objectives, targets and expectations of PGGM.

Our responsibilities under Standard 3000 and procedures performed have been further specified in the paragraph titled "Our responsibility for the review of the Report".

We are independent of PGGM Vermogensbeheer B.V.in accordance with the Regulation regarding the independence of auditors in case of assurance engagements ('Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO)) and other relevant independence requirements in the Netherlands. Furthermore we have complied with the Regulation code of conduct and professional practice for auditors ('Verordening gedrags- en beroepsregels accountants' (VGBA)).

We believe that the review evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of management for the Report

Management is responsible for the preparation of the Report in accordance with the internally developed criteria as described 'Appendix 5 Accountability'. It is important to view the information in the Report in the context of these criteria. As part of this, Management is responsible for such internal control as it determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Our responsibility for the review of the Report

Our objective is to plan and perform the review assignment in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion. We apply the Further Regulations for Audit Firms Regarding Assurance Engagements ('Nadere voorschriften accountantskantoren ter zake van assurance opdrachten') and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our engagement has been performed with a limited level of assurance. Procedures performed in a limited assurance engagement are aimed at determining the plausibility of information and therefore vary in nature and timing from - and are less extensive than - a reasonable assurance engagement.

The procedures selected depend on our understanding of the Report and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise. The following procedures were performed:

- A risk analysis, including a media search, to identify relevant responsible investing issues for PGGM in the reporting period;
- Reviewing the suitability and application of the internal reporting criteria used in the preparation of the Report and accompanying notes;
- Evaluating the design and implementation of the reporting processes and the controls regarding the qualitative and quantitative information in the Report;
- Interviewing relevant staff responsible for the strategy, policies, communication and management with respect to responsible investing and other staff responsible for the delivery of information for the Report;
- Evaluating internal and external documentation, based on sampling, to determine whether the information in the Report is supported by sufficient evidence.

Amsterdam, 12 April 2016

KPMG Sustainability,
Part of KPMG Advisory N.V.

Drs. W.J. Bartels RA, partner

Colophon

This annual report is published by PGGM Vermogensbeheer B.V.

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