

Human Rights Policy

December 2016



1. Introduction

As a co-operative pension fund service provider, PGGM strives to uphold its four core values: always deliver on our promises, be open and honest, be innovative, and work so as to respect the people and the planet. These values are visible in everything we do: the way we deal with our clients, our business partners and with each other. We include them in the services we deliver, in the products we develop, and in the way we invest.

This policy aims to formalise PGGM's internal commitments regarding human rights, align them with the external, internationally-accepted standards and make them publicly available for our many different stakeholders.

Governance and process

The owner of the policy is the Executive Committee of PGGM. The process of writing this policy included a core team of professionals across PGGM: Human Resources, Communications, Sustainability, Procurement, Responsible Investment, Investment Risk, Legal and Compliance. We consulted PGGM's Advisory Board for Responsible Investment, which comprises external experts and academics, and Shift – the leading centre of expertise on the implementation of the UN Guiding Principles for Business and Human Rights (UNGPs).

2. Human Rights at PGGM

As a pension fund manager and a responsible investor, PGGM is aware of and has been working for years towards understanding the risks and minimising the negative impact on human rights through our activities. We developed our beliefs, policies and tools in sync with international principles aimed at promoting and protecting human rights, including the International Bill of Human Rights and the ILO Core Conventions on Labour Standards.

These activities have gone hand-in-hand with developing guidance and 'soft law' externally, and especially with the global endorsement of the UNGPs. This framework applies to all enterprises regardless of the size, sector, operational context, ownership and structure. This includes PGGM and the companies we invest in.

We are continuously improving our policies and management systems, which help us to uphold the expectations stemming from the OECD Guidelines, aligned with the UNGPs, and to avoid and address adverse impacts stemming from our own activities and those of our investments.

Which human rights should PGGM respect?

In principle this responsibility applies to all human rights, including labour rights as described by the International Bill of Rights and the fundamental rights set out in the eight core ILO Conventions. This is a long list and not all human rights will be impacted by all businesses, or all of our activities, but as a starting point we need to take all of them into consideration.

We believe that PGGM's greatest exposure to human rights risks lies in the asset management part of the business. At the moment of writing this policy, PGGM manages about 200bn EUR on behalf of our clients – the pension funds. Our clients are responsible for providing a stable and good pension, now and in the future, for close to three million of their beneficiaries. They expect PGGM to support them in this primary goal.

PGGM invests in different assets – government bonds, public and private companies, and projects. Directly or through market indices we are exposed to a large number of entities. This means that our impact on human rights is indirect and will often be through minority shareholdings and other business relationships all over the world.

Closer to home, with about 1,200 employees and a number of suppliers, we also look into the human rights impacts stemming from our human resources and procurement activities. Below we discuss the three main areas in separate sections: Human Rights in Asset Management, Human Resources and Procurement.

PGGM welcomes the guidance and the focus that the UNGPs provide, and uses them as a frame of reference for the way in which we view our responsibility and the responsibility of others with regard to respecting human rights. We aim to come to an even sharper focus on PGGM's impact on human rights and vulnerable groups in the future.

3. Human Rights in Asset Management

3.1. Beliefs, impact and responsible investment

PGGM seeks to contribute to a society in which economic development is not at the expense of vulnerable groups or future generations. Through our asset management activities we invest the pension assets of our clients all over the world, both directly and indirectly in all business sectors, through a range of different asset classes and using different investment strategies. This means that through our investments we are exposed to many different aspects of the global economy. Adverse human rights impacts can be a result of, or be linked to, the economic activities of the assets we invest in.

Sustainable development and respect for human rights has always been part of PGGM's identity. As mentioned above, it is also a part of [PGGM's Beliefs and Foundations for Responsible Investment](#). In consultation with some of our clients, we have identified seven important themes: Climate Change, Water Scarcity, Food Security, Health, Human Rights, Sustainable Financial System and Corporate Governance. These themes provide focus when working on minimising the negative, and/or maximising the positive, impact of the investments. In a broader sense, many of the themes are relevant from a human rights perspective. Our [Implementation Framework for Responsible Investment at PGGM](#) gives more detail on how we address the themes and how we use the different responsible investment instruments in our investment process.

3.2. Materiality and relevance for our investments

Our clients' and our responsible investment beliefs and strive for sustainable development are important drivers for embracing the responsibility to respect human rights. But we also see risks that can result from poor management of human rights impacts, including labour rights at the companies we invest in.

Examples include operational risks, such as delays to projects, business continuity, or losing one's licence to operate, and reputational risks, drawn by negative media attention, which can lead to loss of customers and divestment campaigns by investors. Regulatory risks stemming from a number of existing and new laws, such as the EU's non-financial reporting

directive, the UK's Modern Slavery Act, legal claims under a foreign direct liability law, the US Alien Tort Claims Act, the UK Bribery Act and others can also lead to large fines and harm reputations.

Apart from risks, we also see opportunities in good management of human rights and labour practices. An active, fully-integrated approach to human rights enables the company to anticipate and manage important risks before they manifest themselves or get out of hand.

An investee company from the food sector, for example, which respects international labour standards and creates a healthy working environment for its employees and suppliers, will have reduced potential for operational and reputational risks and a positive impact for its supply chain. This is much more valuable than the short-term benefits of, for example, donating food to a local community while not knowing what happens in the supply chain. And if things still go wrong, the company will be well prepared to deal properly with the damage and respond to the public quickly and more efficiently, remediating the affected and safeguarding its reputation and licence to operate.

3.3. Implementation in the investment process

PGGM acknowledges the complexity of the business environment it operates in and is fully aware of the possibility that certain investments may cause or contribute to adverse human rights impacts. Our ability to manage these and to have influence on mitigating them in our investments largely depends on the investment strategy and the possibility of using the different responsible investment tools in the investment process. PGGM uses integration of Environmental, Social and Governance (ESG) issues in the investment process, engagement, exclusions and investing in solutions to minimise the negative and maximise the positive impact on human rights in the investments on behalf of our clients.

3.3.1. ESG Integration: selection, due diligence, monitoring, reporting

In order to assess the potential impact and relevance of various human rights issues with respect to a specific investment, PGGM has developed tools and processes which have become part of the screening, due diligence, selection, approval and monitoring process.

Different investment categories and strategies will call for a different approach to integration of human rights issues and will allow for a different degree of influence. Sometimes PGGM invests in funds which are managed by external asset managers. This means that our influence will be limited to selection, engagement and monitoring of the external managers and making sure that they are integrating environmental and social considerations in their investment process. To do this, PGGM develops questionnaires for assessment of our external managers, discussing progress with the laggards and asking for improved practices and reporting.

For more direct investments in companies, we assess the awareness and the ability of the fund managers to assess and monitor human rights impacts. We assess the human rights risks of the company and decide upon an appropriate level of due diligence in the pre-investment period. Where there is a high level of risk, we can decide not to proceed with the investment. We use tools to assess potential risk and reporting templates for obtaining information, and collaborate with others to improve standards and share knowledge. During the lifetime of the investment, where relevant, we agree on action points and expectations to improve or set up necessary management systems.

Where relevant, PGGM incorporates these expectations into contractual agreements; for example, by requesting that fund managers work in accordance with the UN Global Compact, the International Financial Corporations' Performance Standards or other industry-specific standards. The larger investments or the ones which are flagged as high ESG risk are discussed at Investment Committee (IC) level, which then has to sign off on the particular investment. The Management Director of Responsible Investment is a voting member in the IC, which means that even at the last moment there is an opportunity to challenge an investment on different ESG issues.

Salient human rights issues

The UNGPs indicate that human rights due diligence has to go beyond identifying the material risks to the company or to investors, and should focus on those human rights that are at risk of the most severe negative impact through the company's activities. The UNGPs term these *salient* human rights issues. As a long term investor, we believe that in the long run the

potential risk to business corresponds with the risk to people. But we do see room for improvement in understanding and prioritising the salient human rights impacts during due diligence.

3.3.2. Active ownership: engagement and voting

Conducting a dialogue and asking for change on ESG subjects, including human rights and labour practices, is one of the tools PGGM uses to fulfil its responsibility as an active shareholder on behalf of some of its clients. PGGM uses its influence to achieve improvements in the ESG field, thereby contributing to the quality, sustainability and continuity of companies and markets. PGGM does so in the belief that this ultimately contributes to a better social and financial return on investments for our clients.

Our engagement activities are intended to deliver a demonstrable change in the behaviour and activities of a company or party with which dialogue is conducted. PGGM engages both solely and collaboratively on the selected themes. The human rights engagement focuses on asking companies to improve standards, manage risks and remedy severe violations of human rights and labour standards.

For example, we ask the companies to implement UNGPs in their own business, but also to improve labour practices in their supply chains. In the event of severe and repeated violations of human rights which could be deemed to be a violation of the UN Global Compact, PGGM will ask the company to stop the violation, make sure that there is improvement in the management system and provide remedy.

3.3.3. Exclusions

PGGM wants to avoid making investments that are deemed unacceptable by our clients. This is why we do not invest in companies that are linked to the production of controversial weapons. We also screen our portfolio for companies that are in violation of the UN Global Compact and engage with them and, when necessary, seek to collaborate with other institutional investors to increase the leverage and effectiveness of our engagement activities. If the engagement is not fruitful and the violation is deemed systematic and severe, PGGM has the option of excluding the company. Exclusion is expressly seen as a last resort after all other efforts to improve the situation fail. This is explained in detail in the *Implementation Guideline on Exclusions*.

3.3.4. Investing in solutions

Apart from minimising the negative impact on human rights through its investments, some of PGGM's clients aim to expand on having a positive impact on a number of important themes. PGGM does this on their behalf by investing in companies that have products which provide solutions to some of the world's largest challenges that will undoubtedly impact many people: climate change, water scarcity, food security and health. We are aware that the expected positive impact cannot offset the potential negative impact on human rights, including labour rights, and therefore ESG topics including human rights are a part of the due diligence process for these investments.

4. Human Rights in Human Resources

The Human Resources department deals with selection and development regarding PGGM's workforce. PGGM promotes a corporate culture where there is awareness and respect for human rights, including labour rights. We assign an important role to the core value 'Respect for People' in our human resource policies and in our recruitment and selection procedures. PGGM's views on overall appropriate behaviour are guided by our collective labour agreements and rules of conduct, which are set out in the PGGM Code of Conduct.

PGGM puts additional focus on diversity and inclusiveness, equal pay and giving opportunities to people with distance from the labour market.

4.1. Diversity and inclusiveness

PGGM makes an effort to create a diverse workforce in terms of gender, culture and age. We find that diversity brings a variety of talents and competencies to the workplace. This makes PGGM stronger, more flexible and more agile. PGGM has signed the Diversity Charter. With this, we formally commit to promoting a diversity policy in our organisation and stimulating an open corporate culture which promotes recruitment, retention and advancement of employees regardless of physical limitation, gender, age, sexual orientation, cultural, ethnic or religious background.

PGGM wants an open and inclusive culture where we embrace different thinking. We do this by stimulating people to challenge each other's opinions and encouraging them to give feedback freely.

4.2. Equal pay

PGGM has a careful, controlled and sustainable remuneration policy that fits the strategy, the risk appetite and the co-operative aims and values of PGGM. The remuneration policy complies with the relevant laws and regulations, puts the interests of the clients first and takes into account the long-term interests of PGGM. PGGM aims to ensure transparent and responsible remuneration policies – *a fair reward for measurable performance*. The remuneration policy of PGGM is in line with PGGM's culture, values and competencies.

4.3. People with distance from the labour market

PGGM has a programme to offer work experience for people with distance from the labour market. This programme fits PGGM's striving towards a meaningful future and fulfilment of our corporate social responsibility. The goal of this programme is to reduce the distance these people have from the labour market by offering them a chance to get relevant experience. For the participants in this programme this opportunity is not only about an introduction to work, but also about gaining confidence and professional knowledge.

5. Human Rights in Procurement

The Procurement department is responsible for acquiring all goods and services necessary for PGGM's business activities. In order to ensure that products and services that PGGM procures are produced in a way that respects, amongst others, fundamental human rights, PGGM's suppliers are required to sign the PGGM Responsible Purchasing Guidelines. These guidelines require our suppliers to provide information on how they ensure that – amongst others – ILO's Core Labour Standards regarding discrimination, forced labour, child labour, fair wages, and health and safety are respected in the supply chain. In our tendering processes we evaluate the processes potential suppliers have in place to ensure this, and include this evaluation in our selection processes.

We are further developing procedures to monitor our suppliers after their selection and engage on these issues with the strategic suppliers. Where appropriate, we implement the company exclusion list of PGGM Investments.

6. PGGM as a responsible investor

PGGM is a responsible investor and one of the drafting signatories of the UN-backed Principles for Responsible Investment (PRI). The six principles are created by investors, for investors. They are aimed at developing a more sustainable global financial system by: integrating environmental, social and governance issues in the investment process, being active owners through engagement and voting, asking for more transparency and ESG integration in the investment industry, collaborating towards better implementation of the Principles and reporting investors' activities and progress.

As previously mentioned, PGGM also acknowledges the value of voluntary initiatives, standards and tools such as the UN Global Compact, the IFC/World Bank Standards, the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative framework and, most recently, the UNGP Reporting Framework.

Another relevant initiative is the UN Sustainable Development Goals (SDGs). It is very important that investors understand the relationship between the UNGPs and the SDGs. The first is a global standard and a tool we expect businesses to use for human rights risk and management, and the latter is a framework of actionable items that should make collaboration towards the vision of a better world more feasible.

PGGM collaborates with our peers to understand what SDGs can mean for our investments. We look for opportunities to make a positive contribution to economic, environmental and social progress with a view to achieving sustainable development and a better world. In looking for positive impacts, we remain aware that these cannot offset our own and the responsibility of our business relationships to address any negative impacts they may be causing or contributing to.

For more information on PGGM's Human Rights Policy please contact the Responsible Investment department, +31 30 277 99 11 or visit our website www.pggm.com

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