Responsible Investment
Annual Report 2011
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PGGM Vermogensbeheer B.V. advises its clients on the investment policy on the basis of a strong conviction that responsible investment must form part of this policy. As the management of PGGM Vermogensbeheer B.V., we implement our clients’ responsible investment policies.

Every year we account for the implementation of the Responsible Investment Policy over the past year in our annual report. In compiling the PGGM Annual Responsible Investment Report 2011, we have adhered to the international reporting guidelines of the Global Reporting Initiative.

We have assessed the Annual Responsible Investment Report 2011 and declare that the information contained therein presents a true and fair view of the reality.

Zeist, 30 March 2012
To our clients and stakeholders,

Responsible investment is an integral part of our investment convictions and the services we provide. We take account of mankind, the environment and society in our investment decisions and engage in discussions with companies and financial partners on their socially responsible conduct. We are proud to be able to present to you this fourth Annual Responsible Investment Report.

Sustainability is an issue that transcends national boundaries and requires an international approach. We therefore play an active part in international co-operative relationships and make our voice heard worldwide.

In 2011, for example, we participated actively in the climate negotiations in Durban, South Africa. We also spoke to politicians in Australia, a country that plays an important role in the international negotiations on a worldwide climate policy. In the meantime Australia decided to implement a climate tax in 2012.

We are also active worldwide in the field of good corporate governance and shareholders’ rights. Europe has taken many steps towards the establishment of corporate governance standards. In the United States, however, there is still much room for improvement. We organised a round table with experts and representatives from Europe and the United States in 2011 to investigate the scope for developing a corporate governance code in the United States.

The financial sector came in for a great deal of criticism in 2011. Banks and investors were accused of placing their own interests above those of customers and society. PGGM shares the concerns about developments in the financial sector and examined its own role and possible solutions for the sector in 2011. We believe responsible investment can play an important part in restoring trust in the financial sector. We shall also continue to talk to our financial partners with a view to jointly achieving a more sustainable financial system and sustainable economy.

Responsible investment is not only our response to current events; it is a continuous process of innovation and weighing up issues. The experts on our external advisory board (ABRI) support us in this process. As in our international co-operative relationships, that means we not only rely on our own perspective but also draw on external knowledge.

To gauge the effectiveness of the Responsible Investment Policy, we launched a project in 2011 to measure the sustainable return on our assets under management. Clients can then gain an insight into the sustainability profile of their portfolio and its evolution over time. The benchmark that measures the sustainability approach in worldwide real estate investments is an initial step in that direction.

We consider 2011 to have been a productive year in many respects. There was greater integration of ESG factors in investment decisions, we engaged with more companies on their social responsibility policy and conduct, targeted ESG investments grew and we participated in a large number of co-operative relationships. However, responsible investment is about more than meeting quantitative targets; its importance lies in the effect we can achieve through these activities. We therefore believe it is important to constantly assess our role and responsibilities. We shall continue to monitor and improve the quality of the policy and the process by which we take account of mankind, the environment and society in our investment decisions.

We would like to renew our dialogue with you in 2012 to discuss and strengthen the progress in responsible investment.

Eloy Lindeijer
Chief Investment Management
PGGM and responsible investment

We invest assets worth over €110 billion on behalf of institutional clients. Responsible investment is integrated into PGGM’s general investment policy. That means we consciously take account of environmental, social and corporate governance factors in our investment activities. Our responsible investment policy has six pillars (p. 16). We integrate ESG factors into the various investment processes, make targeted ESG investments, use our voting rights as a shareholder and engage in dialogues with companies and markets. We also conduct legal proceedings and exclude certain investments. When implementing responsible investment, discussing issues and developing innovative policy, we use the independent input from our Advisory Board Responsible Investment (p. 18). We also participate internationally in co-operative relationships, including the Principles for Responsible Investment (PRI) (p 17).

ESG integration in all our investments (p. 22)

The environment, society and corporate governance influence our clients’ investment returns, and the investments in turn have an effect on the world. Taking these factors into account therefore constitutes good risk management and ensures that we take account of financial opportunities for social solutions.

In 2011 we investigated how PGGM could increase its contribution to a more sustainable world in the passively managed equity portfolio. Various instruments were assessed, including stricter application of the exclusions policy and an adjustment to the index (p. 28). We also launched the ‘Principles for Responsible Investment in Farmland’ jointly with other investors (p. 28). These principles include sustainable management of nature and the environment and respect for human rights. For the real estate portfolio, the Global Real Estate Sustainability Benchmark (GRESB) was published for the second time and is now being applied internationally. It enables us to measure the sustainability of the real estate portfolios (p. 18).

Investments with ESG impact (p. 31)

Targeted ESG investments are investments which not only contribute financially to the performance for clients but are also intended to create social added value. Examples are investments in clean technology and investments which contribute to the fight against poverty in the infrastructure and private equity portfolios. Another example is the Responsible Equity Portfolio. This concentrated portfolio invests in listed companies on the basis of financial and sustainability parameters in order to achieve a responsible return.

Targeted ESG investments totalled €4,730 million in 2011. PGGM worked with Erasmus University to develop a method to ascertain how these investments create social added value. This method was used to assess the expected impact of targeted ESG investments in eight different areas (p. 31).

Voting as an active shareholder (p. 37)

Voting is one of the most important rights a shareholder has. We vote on behalf of our clients on the basis of our own judgement at shareholders’ meetings. In 2011, we voted at 3,224 shareholders’ meetings, representing 99.5% of all shareholders’ meetings at which we were able to vote.

In 2011 we voted on several occasions against the reappointment of executive directors, because we had no confidence that they would be able to resolve problems that had arisen. Often, executive directors only remain in post because the voting rights are disproportionate or because a majority of shareholders do not vote against their reappointment. That does not negate PGGM’s responsibility for continuing to vote on the basis of its own judgement on behalf of our clients. Some examples are:

> ‘Safety of Tepco nuclear plants.’ p. 42
> ‘Heads roll at News Corp.’ p. 44
> ‘Voting against the BP board’ p. 42
Importance of dialogue: engagement (p. 47)

We see it is our responsibility to engage with companies and markets about their policies and activities. Dialogue is vital in order to change the ESG course of companies. Important themes for us and our clients are human rights, climate change, health and good corporate governance.

In addition to our themed approach, PGGM introduced a sector-oriented approach in 2011, in which we address all ESG risks and opportunities in companies within a sector. For example, we began a sector-wide engagement project with mining companies in 2011 (p. 55). Together with the Swedish national pension funds, we are urging 30 international mining companies to implement best practices. In order to achieve greater impact, PGGM often works on engagement projects with other international investors and through co-operative relationships. We also organised a round table with international experts to investigate the scope for introducing a corporate governance code in the United States (p. 58). We already have that in Europe. Dialogues were conducted with a total of 607 companies in 2011.

Conducting legal proceedings (p. 63)

In order to recover damages as a shareholder and enforce good corporate behaviour, PGGM sometimes institutes legal proceedings on behalf of our clients, both in the Netherlands and abroad. Legal proceedings usually take a number of years. In 2011 there were important developments in the Bank of America case, which we have been pursuing jointly with Swedish and US pension funds since 2009. The case is proceeding well, and we shall pursue it further in the year ahead (p. 65).

Deciding not to invest: exclusion (p. 69)

In some cases we decide not to make investments, because they do not fit in with our identity and/or that of our clients. For example, we do not invest in companies active in the production of or trading in controversial weapons. We also exclude companies if they are unwilling to speak to us about improvements or fail to demonstrate any improvements. In 2011 we excluded a total of 40 companies and the government bonds of eight countries. Libya was added to the list of excluded government bonds in 2011, in response to events in the Middle East. We applied our exclusions policy to almost all assets under management (99%) in 2011. That is not a matter of course. Applying exclusions to hedge funds, for example, is not a common practice.

Outlook (p. 72)

We shall continue to deepen our responsible investment activities in 2012. We shall remain in discussions with our clients and social organisations in order to improve our activities. These discussions will expressly include our role in the financial sector (p. 72). We shall also continue our investigation into investment behaviour relating to agricultural commodities (p. 26).

Gaining insight into the effectiveness of responsible investment is complicated by the fact that measurement methods are still in their infancy. We shall continue to work on this in 2012. The pilot projects aimed at assessing the sustainability profile of an investment portfolio are a means to this end (p. 19). We shall therefore work further on the measurement of social added value.

Further attention will be devoted to the following subjects in 2012: ESG integration in the strategic asset allocation, the ‘More responsible beta equity portfolio’ project and the intensification of our engagement activities. We shall include these projects and activities in the assessment and continued development of the existing responsible investment policy.

We consciously take account of environmental, social and corporate governance factors in our investment activities
Implementation of responsible investment activities

The table below sets out our targets, as agreed with our clients, and activities for each key performance indicator (KPI).

In this annual report we describe the vision and policy on which these targets are based and illustrate the activities and results by means of examples and specific cases.

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<th>Target</th>
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<td>Responsible investment integration*</td>
<td>98%</td>
</tr>
<tr>
<td></td>
<td>98%</td>
</tr>
<tr>
<td></td>
<td>99%</td>
</tr>
<tr>
<td></td>
<td>≥ 99%</td>
</tr>
<tr>
<td>Comprising:</td>
<td></td>
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<tr>
<td>ESG integration</td>
<td></td>
</tr>
<tr>
<td>Started or completed in phase 1 Inventory (as % of total assets under management)</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Started or completed in phase 2 Implementation (as % of total assets under management)</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>88%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Targeted ESG investments</td>
<td></td>
</tr>
<tr>
<td>Volume of targeted ESG investments/commitments (€ million)</td>
<td>2,551</td>
</tr>
<tr>
<td></td>
<td>3,711</td>
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<tr>
<td></td>
<td>4,730</td>
</tr>
<tr>
<td></td>
<td>≥ 5,200</td>
</tr>
<tr>
<td>% of targeted ESG investments in total assets under management**</td>
<td>3.0%</td>
</tr>
<tr>
<td></td>
<td>3.6%</td>
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<tr>
<td></td>
<td>4.1%</td>
</tr>
<tr>
<td>Exclusions</td>
<td></td>
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<td>Number of excluded companies</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>40</td>
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<tr>
<td>% of total assets under management covered by Exclusions Policy**</td>
<td>98%</td>
</tr>
<tr>
<td></td>
<td>98%</td>
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<tr>
<td></td>
<td>99%</td>
</tr>
<tr>
<td></td>
<td>≥ 99%</td>
</tr>
<tr>
<td>Excluded companies relative to FTSE All World benchmark</td>
<td>1.2%</td>
</tr>
<tr>
<td></td>
<td>1.2%</td>
</tr>
<tr>
<td></td>
<td>1.1%</td>
</tr>
<tr>
<td>Voting</td>
<td></td>
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<tr>
<td>Number of shareholders’ meetings (AGMs) at which votes were cast**</td>
<td>4,78</td>
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<tr>
<td></td>
<td>4,722</td>
</tr>
<tr>
<td></td>
<td>3,224</td>
</tr>
<tr>
<td>Number of votes cast</td>
<td>40,819</td>
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<tr>
<td></td>
<td>42,186</td>
</tr>
<tr>
<td></td>
<td>33,852</td>
</tr>
<tr>
<td>Number of AGMs at which votes were cast as % of total number of AGMs***</td>
<td>99%</td>
</tr>
<tr>
<td></td>
<td>99%</td>
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<tr>
<td></td>
<td>99.5%</td>
</tr>
<tr>
<td></td>
<td>≥ 98%</td>
</tr>
<tr>
<td>Number of AGMs at which votes were cast as % of Voting Focus List</td>
<td>99%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
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<tr>
<td></td>
<td>99%</td>
</tr>
<tr>
<td></td>
<td>≥ 99%</td>
</tr>
<tr>
<td>Engagement</td>
<td></td>
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<tr>
<td>Number of companies engaged with directly**</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>154</td>
</tr>
<tr>
<td></td>
<td>≥ 150</td>
</tr>
<tr>
<td>Number of companies engaged with indirectly (through F&amp;C)**</td>
<td>495</td>
</tr>
<tr>
<td></td>
<td>574</td>
</tr>
<tr>
<td></td>
<td>453</td>
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<tr>
<td>Value of companies engaged with as % of managed equity portfolio as at 1 January 2011</td>
<td>48%</td>
</tr>
<tr>
<td></td>
<td>51%</td>
</tr>
<tr>
<td></td>
<td>49%</td>
</tr>
<tr>
<td>Legal proceedings concerning share ownership</td>
<td></td>
</tr>
<tr>
<td>Active proceedings</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Proceeds of passive legal proceedings</td>
<td>€ 6,574,827</td>
</tr>
<tr>
<td>Key data</td>
<td></td>
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<td>Volume of total assets under management (€billion)**</td>
<td>88</td>
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<tr>
<td></td>
<td>103</td>
</tr>
<tr>
<td></td>
<td>114</td>
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<tr>
<td>Volume of total managed equity portfolio (€billion)</td>
<td>36</td>
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<tr>
<td></td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>41</td>
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<tr>
<td>Number of companies in total equity portfolio</td>
<td>4,248</td>
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<tr>
<td></td>
<td>2,971</td>
</tr>
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<td></td>
<td>2,777</td>
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Note: No targets are applicable for some of these components. The number of companies to be excluded, for example, is not an aim in itself.

* This indicator describes the quantity of responsible investment activities and the extent of application to the total assets under management. Not every underlying component applies to the total assets under management. For each component, quality improvement is a continuous process.

** Global Reporting Initiative indicators from the Financial Services Sector Supplement (2008 version). The GRI is a worldwide standard for companies’ reporting on ESG factors.

*** The 2012 target and the 2011 and 2010 results concern the number of meetings at which votes were cast excluding blocking markets.

This PGGM Responsible Investment Annual Report 2011 provides information concerning the 2011 financial year, which runs from 1 January to 31 December 2011 inclusive.

This annual report is limited to the responsible investment activities which fall within the scope of PGGM Vermogensbeheer B.V. Unless stated otherwise in the respective sections, the data used has been taken from our own RI database and from the various other relevant departments within PGGM Vermogensbeheer.
Examples of investment decisions

1. Greening of existing offices p. 28
2. The Farmland Principles p. 28

Examples of targeted ESG investments

1. REP: Mettler Toledo p. 35
2. AlpInvest: Pattern Energy p. 35

Examples of voting

1. Voting against the BP board p. 42
2. Safety of TEPCO nuclear plants p. 42
3. Demerger of TNT p. 44
4. Heads roll at News Corp p. 44
5. First year of Say on Pay p. 44
6. Undesirable selling of voting instructions p. 45

Examples of engagement

1. Major ESG risks in the mining sector, p. 55
2. Engagement for sustainable palm oil, p. 55
3. Water scarcity, growing risk for investors, p. 57
4. Question marks over the role of the telecommunications sector in the Egyptian revolution, p. 57
5. Active participation in Eumedion p. 57
6. First ‘Fifth Analyst Call’ held in the United States, p. 58
7. PGGM organises round table on ‘US Corporate Governance Code’ p. 58
Examples of legal proceedings on share ownership

1. Negative consequences for investors after Supreme Court ruling in NAB/Morrison case, p. 65
2. Bank of America case advances steadily, p. 65
3. Settlement of Shell case, p. 66

Examples of exclusions

1. Discussion on controversial weapons, p. 71

Dialogue on activities in occupied territories of Palestine, p. 59
Labour rights in the United States, p. 60
Climate change in Australia, p. 60
Openness at Shell, p. 61
External audit at Zimmer, p. 61
For PGGM, Responsible Investment means consciously taking account of environmental, social and governance (ESG) factors in our investment activities.

This annual report describes the Responsible Investment Policy and activities within PGGM Vermogensbeheer B.V. (hereinafter: PGGM). PGGM provides its clients with integrated asset management. We conduct the various described activities, such as investment, voting and engagement, as an asset management organisation for and on behalf of our clients. PGGM’s clients nevertheless remain the owners of the outsourced pension assets and determine their own pension and investment policy. Where we mention ‘clients’ in this report, we refer to clients of PGGM Vermogensbeheer investing in PGGM funds as well as clients for whom discretionary portfolios are managed. If we state that we invest in a particular portfolio, that always means we do so on behalf of our clients.

PGGM integrates responsible investment into the investment policy for our clients. We are convinced that responsible investment contributes to a better social and/or financial return. Moreover, responsible investment fits our identity and social responsibility.

Our specific ESG focal areas are health, good corporate governance, climate change, human rights and weapons. Our responsible investment activities are focused on these areas. Responsible investment encompasses both our investment decisions (particularly ESG integration and targeted ESG investments) and our activities (such as exclusion, voting, engagement and legal proceedings).

The Responsible Investment Policy has also been set out in two policy documents, the Exclusions Policy and the Listed Equity Ownership Policy (LEOP). Further information on PGGM’s policy can be found on our website.

The Responsible Investment Policy can be subdivided into five key points:
- acting on a conviction that financial and social returns can go hand in hand;
- contributing to the quality and continuity of companies and financial markets;
- making responsible choices based on our identity and that of our clients;
- encouraging partners in the financial sector to practise responsible investment;
- accountability with regard to targets, activities and results in the field of responsible investment.
1.1 The PGGM approach

The implementation of the Responsible Investment Policy is based on six pillars. This annual report describes a selection of activities in 2011 in each pillar.

**ESG integration**
Environmental, social and corporate governance factors have an effect on our clients’ investment return and risk, and in turn the investments have an effect on the world. PGGM therefore takes these factors into account in its investment decisions. That is not only good risk management, but also ensures that the opportunities offered by ESG factors are also taken into account.
> Section 2 Investment processes p. 21

**Targeted ESG investments**
Targeted ESG investments are investments which not only contribute financially to the performance for clients but are also intended to create social added value. Our clients thereby help to provide sustainable solutions to the world’s social problems. Examples are investments in clean technology, sustainable energy and investments which contribute to the fight against poverty.
> Section 3 Targeted ESG investments p. 31

**Voting at shareholders’ meetings**
Voting is one of the most important rights a shareholder has. We therefore vote on the basis of our own judgement and guidelines at shareholders’ meetings. Informed voting contributes to the attainment of good corporate governance. We focus particular attention on shareholder resolutions in the environmental and social area.
> Section 4 Voting p. 37

**Dialogue with companies and markets**
As a responsible investor we see it as our responsibility to take part in a dialogue with companies and market participants on their policy and activities. We call this engagement. Our aim is to bring about improvements in the environmental, social and corporate governance (ESG) field based on a view that this ultimately contributes to a better social and/or financial return on our investments.
> Section 5 Engagement p. 47

**Legal proceedings**
In order to recover damages and enforce good corporate behaviour, PGGM institutes legal proceedings on behalf of our clients if necessary. We do that as a shareholder in listed companies both in the Netherlands and abroad. Our preference is to work with other investors with whom we share common interests.
> Section 6 Legal proceedings p. 63

**Exclusions**
PGGM aims to avoid making investments on behalf of our clients which do not suit them and us. Therefore we do not invest in controversial weapons. We also exclude companies which violate human or labour rights if they are unwilling to speak to us about improvements or fail to demonstrate any improvements.
> Section 7 Exclusions p. 69

1.2 Implementation of responsible investment in the organisation

Almost the entire organisation has a role and responsibility in implementing the Responsible Investment Policy.

PGGM has also set up a special department, Responsible Investment (RI), which deals exclusively with responsible investment and comprises 10 people. The RI team can advise on adjustments to the Responsible Investment Policy. It also carries out the engagement and voting activities. The department also serves as a knowledge centre for PGGM and supports it with internal and external communication on responsible investment. RI also has a supporting role in integrating ESG factors in investment decisions. The responsibility for integrating ESG factors in investment decisions lies with the various investment departments.
1.3 Results of responsible investment

We strive to make a positive contribution to our social and/or financial return through our investment decisions and activities. To this end, we make strong efforts and undertake a great many activities in each pillar of our responsible investment approach. Responsible investment is not a fait accompli but an ongoing quest. Often, there are no solid criteria and best practice is still being developed. ESG integration is not equally feasible for all investment teams, because ESG factors cannot always be assessed in material terms. The effect of climate change on derivatives, for example, is not (yet) measurable. The success of our activities therefore depends greatly on the context in which they take place.

Both in our engagement and voting activities, it is also important to consider that on average we hold only 0.15% of a company’s outstanding shares in our portfolio, so we cannot influence shareholders’ meetings or engagement with companies on our own. These are usually long-term processes in which the results are not always a matter of course. Co-operation with other institutional investors increases the chance of achieving good results.

We are convinced that it is the combination of the entire package of activities that generates a social and/or financial return. We therefore actively pursue these activities ourselves and encourage others to do likewise. Our aim is to make social and financial results as measurable as possible in order to clarify the effect that PGGM’s Responsible Investment Policy is having. That will enable us to be more transparent in future when it comes to identifying where our limits and successes lie.

1.4 Transparency

Transparency is an important part of our policy. We aim to be a reliable partner and to be clear about what we are doing and why. We report continuously by publishing quarterly and annual reports on our activities and developments in the field of responsible investment. Every year we give our clients an opportunity to provide their participants with details of the investment portfolio and the parties with which PGGM is doing business on their behalf. In this report, we cannot comment on all our activities during the year, for example if the information is confidential or if disclosure would be contrary to the interests of our responsible investment activities at the time.

1.5 Public debate

As well as implementing our own policy, PGGM seeks to encourage others in the financial sector to invest responsibly. We therefore contribute actively to the public debate and take part in conferences, panels and working groups in order to share our specialist knowledge. We engage in discussions not only with our clients and other institutional investors, but also with external organisations, for example in the world of science, media and politics, and with companies. That enables us not only to spread our message but also to gain an insight into ways of clarifying and improving our own policy. In 2011, for example, we published a position paper on ‘Investment in agricultural commodities’ to clarify our position on this subject.

United Nations Principles for Responsible Investment

PGGM played an active part in drawing up the United Nations Principles for Responsible Investment (PRI). These are guidelines for owners and managers of assets who want to take account of environmental, social and good governance factors in their investment process. As one of the first signatories, we apply the PRI as a foundation for our responsible investment activities. We participate actively as a member of the PRI Advisory Council and within the various PRI working groups. We are also involved with many other initiatives and co-operative relationships. > Appendix I Overview of co-operative relationships p. 74
1.6 Advisory Board

The Advisory Board Responsible Investment (ABRI) was established to enable PGGM and its clients to obtain independent advice and discuss issues relating to responsible investment.

For example, the ABRI gives advice on policy changes or updates in the field of responsible investment and on the implementation of the Responsible Investment Policy and the underlying policy documents. The ABRI also issues recommendations on its own initiative on relevant social developments in relation to the Responsible Investment Policy and its implementation.

The ABRI members are appointed by PGGM’s clients and have specific expertise in the fields of human rights, weapons, climate change and responsible investment, as well as the related financial aspects. The following were members of the Advisory Board in 2011:
Prof. Dr. C. Flinterman (human rights), Mr C. Homan (weapons), Mr R. Willems (climate change) and Prof. Dr. R. Bauer (responsible investment).

Prof. Dr. A. Roobeek joined the board in 2011 due to her knowledge and experience in the field of sustainability and corporate governance. The ABRI meets on several occasions each year and its advice is sought on complex and ethical issues. The advice of the Advisory Board Responsible Investment plays a major role in the case of exclusions. The discussions in 2011 covered subjects such as the possible addition of new weapons to our list of controversial weapons.

> ‘Discussion on controversial weapons.’ p. 69

Discussions also took place with the ABRI in 2011 on the engagement activities focused on companies operating in the occupied territories of Palestine, the application of the Exclusions Policy, including for government bonds, and the position on nuclear energy and investments in agricultural commodities. Drawing on their experience and expertise, the members of the ABRI also had input into various innovative projects, such as the measurement of sustainable returns.

1.7 Measuring sustainable returns

Measuring the effectiveness of the Responsible Investment Policy remains uncharted territory. In 2008 we began developing a measuring instrument which assesses the input, output and effect of responsible investment activities. The resulting insights and data have been incorporated in this annual report. PGGM continued this work in 2011 by developing a method whereby the effect of the entire investment portfolio on a more sustainable world could be expressed in terms of a ‘sustainable return’. This is illustrated in figure 1.1. We shall launch a number of pilot projects in this area in 2012. Where possible, we will build on work we have already carried out, for example in the context of ESG integration. We shall endeavour to aggregate information from the existing measuring instruments in such a way as to arrive at a value which measures the investment portfolio’s contribution to a sustainable world over time.

The Global Real Estate Sustainability Benchmark (GRESB) database, which records the sustainability performance of various real estate funds, forms a valuable basis for determining how and to what extent our real-estate portfolio contributes to sustainable development. The idea is also to show how this contribution improves over time as a result of our own activities in the field of responsible investment, including engagement. The measuring instrument which we developed for targeted ESG investments is another starting point. On this matter, see 3.1 Measuring social added value p. 72.

1.8 Towards a more sustainable financial sector

The worldwide Occupy movement was frequently in the news in 2011. PGGM’s clients also asked about our role in the financial sector. PGGM shares the concerns about developments in the financial sector and is actively looking for solutions. We are doing this not only by implementing our own responsible investment policy but also in our relationships as a client and partner of financial institutions. PGGM’s financial service providers (such as brokers, external managers and banks) are questioned and judged on their ESG/CSR policy. We are also developing measuring instruments for various activities in order to assess our social and overall impact.
By taking a leading role in the field of responsible investment, PGGM seeks to encourage the entire financial sector to practise greater corporate social responsibility. PGGM understands that more needs to be done to eliminate society’s mistrust of the financial sector. We shall therefore enter into a dialogue on the criticism of the financial sector with other pension administrators (and possibly with foreign institutional investors) and examine whether it is possible to work with them to find solutions and achieve sustainability in the financial sector.

PGGM believes that the financial sector in the Netherlands and elsewhere can make a significant contribution to the resolution of social issues within the financial sector. That is not only in the interests of the financial sector itself, but also in the interests of the society of which we all form part. PGGM will continue to address this matter actively and discuss it with its clients.
Environmental, social and corporate governance factors have an effect on our clients’ investment return and risk, and in turn the investments have an effect on the world. PGGM therefore takes these factors into account in its investment decisions. That is not only good risk management, but also ensures that the opportunities offered by ESG factors are also taken into account.

We call this ESG integration. PGGM defines this as ‘the structural and systematic addition of material ESG factors to existing investment processes’. With ESG integration, ESG factors are viewed from a financial perspective. ‘Material ESG factors’ are factors which have a significant financial impact on the underlying investment. For example, CO₂ emissions do not only have environmental consequences but also possible consequences for the level of CO₂ tax payable by a company and hence also for the company’s profitability. The way in which a company is managed (corporate governance) can also affect the risk and return of this investment.

There are major differences between investment categories, for example due to the nature of the investment, term, extent of risk and liquidity. All these elements determine which ESG factors are of importance and to what extent. This means that ESG integration is fulfilled in different ways in the various investment categories. This may also mean that the financial contribution from ESG factors fails to materialise or is not yet demonstrable in an investment category.

PGGM realises that ESG factors can have both desired and undesired social effects. Figure 2.1 illustrates the possible field of tension between financial and social interests. If a field of tension is liable to arise in an investment strategy, we weigh up our social responsibility against our financial responsibility and where necessary consult with our clients. We also use the other instruments within responsible investment, including engagement and exclusions. PGGM also investigates whether investment decisions give rise to any reputation damage from the human, environmental and social perspective and are consistent with the identity of PGGM and its clients.
2.1 ESG integration process

Since 2009, PGGM has maintained a structured approach to the integration of ESG factors. This comprises three phases, which are completed for each investment category.

Phase 1: Inventory
In this phase an ESG framework is drawn up for each investment category. We investigate and determine which environmental, social and corporate governance factors affect the financial performance of underlying investments, and to what extent. PGGM completed this phase in 2010 for all the assets under management.

Phase 2: Implementation
In the second phase we determine how the ESG framework from Phase 1 will be implemented in the investment process. Examples of this are drawing up a specific responsible investment policy and the addition of ESG criteria which have a financial impact on the selection of investments.

Phase 3: Internalisation
In the third phase ESG factors form a natural part of the overall investment process. This means among other things that ESG factors become an integral part of the normal investment process, are periodically evaluated and, if necessary, are adjusted.

The internal asset managers at PGGM own the individual integration processes. A team of specialists in the Responsible Investment (RI) department supervises and supports these processes. ESG integration is therefore a joint effort by the individual investment teams and RI. The advantages of the chosen model are that integration processes take place simultaneously across all the investments, raising further awareness of ESG among investors. This also enables us to ensure that all relevant investment and ESG knowledge is deployed.

2.2 ESG integration in each investment team

Private real estate

Developments in real estate policy
When selecting new private real estate funds we require the fund managers to comply with our Responsible Investment policy for Real Estate (RIRE). All new fund managers endorsed this policy in 2011. In the case of existing fund managers, we provided extensive information on this policy during the year, which our current fund managers must also comply with.

We periodically assess each fund manager. In these discussions we ask the fund manager how ESG factors are specifically reflected in the respective funds. Our RIRE policy serves as a guideline in this regard.

Adjustment to reporting guidelines for private real estate funds
Since 2010 PGGM has required its fund managers to report periodically on a set of sustainability indicators (such as energy and water consumption). In anticipation of international standards, this set was further expanded in 2011 and, in this new form, was made part of our official reporting requirements.

Developments in research into real estate funds
PGGM is a co-founder of GRESB, the Global Real Estate Sustainability Benchmark. This foundation, which was established in co-operation with other bodies including Maastricht University, investigates the extent to which real estate companies and funds implement sustainability in their investment processes. This benchmark enables real estate investors, funds and companies to compare performance in the field of sustainability and identify any points for improvement. The first research results were published in January 2010. In 2011, the survey on which the benchmark is based was further developed. For example, there is now more focus on the main environmental performance indicators and the scope has been broadened to include social factors. We are using this improved survey in the selection of new real estate funds in 2012.

The success of GRESB is evidenced by the growing number of members. The response rate has also risen substantially. The number of participating real estate companies and funds has grown from 198 to 340, an increase of over 70%. We are witnessing growing awareness in the real estate sector as a result of this benchmark and our engagement activities. GRESB is thus providing a major stimulus for the sector to move to a more sustainable approach to real estate investments.
Listed real estate

The team that invests in listed real estate incorporates ESG factors in its valuation models and thus takes them into account in its investment decisions. This translates into a higher expected share value for these companies. The investment team also actively seeks a dialogue with companies and sector organisations in order to improve sustainability performances and share best practices with them.

Real estate companies that wish to fulfil our requirements with regard to governance and sustainability often request that these be tailored to their specific situation. They often face the challenge of dealing with investors from different regions. Views on what constitutes good corporate governance may differ depending on the region and may clash. It is therefore important to communicate actively with the real estate companies in which we invest. Our strategy is to work with companies. Dialogue has been shown to be an effective way to bring about change in companies’ ESG performances.

In 2011 we spoke with various parties, including Derwent London, a British real estate fund, on the composition of the board of directors and particularly on the independence of the board members. PGGM considers that non-executive directors are not independent if they have served as a non-executive director of the company for more than 12 years. At Derwent this meant that in our view most of the board was no longer independent. Following discussions with the company, Derwent decided to introduce a programme to recruit new directors, so that they will fulfil our requirements in future.

PGGM has also held discussions with various companies on policy and reporting in the field of sustainability. Real estate is an investment category in which sustainability and returns correlate well because tenants are often prepared to pay more for accommodation that is more energy-efficient. This subject was discussed among others with the Dutch real estate company Corio, and commitments were given to make further improvements.

PGGM is a member of the sustainability committee of the European Public Real Estate Association (EPRA). By participating in this committee, we aim to improve the reporting, transparency, cost awareness and environmental performance of listed real estate companies. In September 2011, EPRA issued best practice recommendations for environmental reporting, which were compiled with the collaboration of PGGM. PGGM continues to talk to real estate companies about their progress in implementing these standards.

GRESB is used not only by private real estate but also by listed real estate. In 2012, PGGM will urge listed real estate companies to make GRESB information a standard part of their annual reports.

Private equity

PGGM strives to take a leading role in responsible investment and private equity. In the case of investments made by the PGGM Private Equity team, ESG factors are incorporated in the investment decisions. PGGM has conducted discussions with various private equity funds in order to improve their ESG policy, PGGM is taking account of these experiences in the development of a responsible investment policy for private equity and is also participating in the steering committee of the PRI private equity working group in 2012.

On the sale of AlpInvest, APG and PGGM reached agreement with Carlyle to enter into a co-operative arrangement to share ideas and working methods. The aim was to further integrate policy with regard to environmental, social and corporate governance factors in the management of the private equity investments in Carlyle’s portfolio. The first meeting with these three parties took place in 2011. The subjects we discussed were:

- ESG reporting and the development of KPIs;
- Integration of ESG factors in investments in emerging markets;
- Improving Carlyle’s approach with regard to social factors;
- Developing a sustainability approach for real estate investments.

As part of the sale of AlpInvest, APG and PGGM issued investment mandates to AlpInvest. At the request of APG and PGGM, AlpInvest developed its own Corporate Social Responsibility (CSR) policy and is a signatory to the PRI. AlpInvest also conducts discussions on ESG with private equity funds in which they invest. In 2011, AlpInvest was involved in a number of initiatives in the private equity sector, including the private equity working group of the Principles for Responsible Investment (PRI) and the Institutional Limited Partner Association (ILPA). PGGM has also been a member of the ILPA since 2010. PGGM has regular discussions with AlpInvest on the implementation and monitoring of their responsible investment policies.
Infrastructure
PGGM invests in infrastructure worldwide, directly and through funds. This includes investments in the generation and transmission of energy, with sustainable energy occupying an important position. The Infrastructure team takes account of ESG risks and opportunities in new investment proposals, such as involving the local population in new projects and the possible consequences of CO₂ emission regulations. Where necessary, RI specialists are involved in investment decisions in order to raise additional ESG questions. PGGM is now examining and implementing various follow-up steps from the inventory phase for infrastructure, including:

- development of a baseline measurement for the entire infrastructure portfolio;
- elaboration of a specific responsible investment policy for infrastructure as adopted by the real estate departments;
- development of ESG reporting requirements.

In 2011 we also collaborated on the publication of a guide containing case studies on ‘Responsible Investment in Infrastructure’, which was published by the PRI in September 2011.

Real assets
The real assets portfolio principally comprises investments in forestry and agriculture. We mainly invest on behalf of our clients in land and the primary production process. Income from production (wood and agricultural commodities) and the rise in the value of the underlying assets (forests and agricultural land) provide the return. The investments are long-term (often exceeding 10 years).

After the inventory phase, PGGM initiated a follow-up project in 2010 and developed an ESG questionnaire, which was sent to the external managers of the investments. The aim of these questions was to provide a baseline measurement of ESG factors for each investment. The answers and discussions with our managers in 2011 showed that they were aware that sustainable land management was a precondition for achieving and maintaining profitability, including on long-term investments. Managers are kept informed of best practices and some of them now endorse ESG standards and are members of sustainability initiatives. Protecting biodiversity, improving the quality of agricultural land and working continuously to maintain good relations with the local community are examples of the policy being implemented in the various investments in our real estate portfolio worldwide.

PGGM also played a part in drawing up the ‘Principles for Responsible Investment in Farmland’ (Farmland Principles) in 2011, jointly with other institutional investors.

> ‘The Farmland Principles’, p. 28

Structured credit
In the case of structured credit investments, PGGM has access to various forms of credit risk that banks hold on their books. PGGM’s clients share in the risk of the underlying loan portfolio. This includes for example loans to companies or infrastructure projects. The credit risk can be divided into various tranches, with each tranche having its own risk and return. We believe it is important that the tranche is robust, so that even if losses are higher than expected the overall return will still be relatively good.

In all transactions worked on by the Structured Credit team, close attention is paid to the bank’s ESG policy. PGGM’s exclusions list applies to all risk-sharing transactions.

Hedge funds
Hedge fund investments are not a uniform category, but are characterised by a collection of very different investment strategies. Hedge fund managers have greater freedom in making investment decisions, enabling them to make optimum use of market inefficiencies.

In January 2011, PGGM completed the introduction of a dedicated managed account hedge fund platform. This is specific to PGGM, which means there is complete transparency in the portfolio. In contrast to regular funds, which are sometimes funds of funds, this managed account platform gives PGGM a greater say and more control. One of the advantages is that PGGM can prevent and control the operational and governance risks associated with hedge funds. Another advantage is that we can apply an exclusions policy and a voting policy to the platform.

PGGM also completed an investigation in 2011 to determine which hedge fund strategies could incorporate ESG factors and for which strategies this would be less appropriate.

Responsible equity portfolio
The Responsible Equity Portfolio (REP) is a portfolio which PGGM manages on behalf of one of our clients. The investment team integrates financial and sustainability parameters in order to generate a responsible return with investments in listed companies. It is a concentrated portfolio with a limited number of companies.
The REP portfolio comprised 16 companies in 2011. The investment team carries out an extensive analysis of listed companies, combining fundamental financial factors with ESG factors. These analyses are used to create a sustainable, long-term portfolio. The team maintains a continuous dialogue with the investee companies with a view to improving their sustainability profile.

When making investment decisions, REP uses its own ESG toolbox developed in-house. This consists of 85 parameters covering four categories (Management, Governance, Environmental and Social) and provides flexibility to gear ESG priorities to the respective company or industry. The performance of the target company is also compared to that of the main competitors in the industry so as to create a reference framework.

The ESG toolbox is used to obtain answers to the following questions:
- To what extent is corporate social responsibility integrated within the company's core activities?
- Which of the company's characteristics/issues merit additional attention due to a possible reputation risk for PGGM?
- If we decide to invest in the company, are there subjects which require monitoring and/or engagement on our part? If so, what priorities should we set?

The answers to these questions are then taken into account in the investment decision, in the same way as the financial analysis. If a number of core ESG criteria are not fulfilled, or if so many points require attention that REP needs to generate a higher financial return that is scarcely achievable, a possible investment may not go ahead.

If there are no objections and an investment is made, REP will continue to update the toolbox for its portfolio. This encourages companies to continuously improve their overall ESG profile.

Emerging market credits
Emerging Markets Credits (EMC) is a portfolio which PGGM manages for one of our clients. The portfolio invests in bonds, loans and other financial instruments of companies operating in the emerging markets. ESG factors play an important role in this portfolio, for example in project finance in the oil and gas or mining sector. Our decision on whether to invest is based to a large extent on the company's ESG policy (e.g., adherence to the Equator Principles) and compliance with local and national legislation and regulations, as ESG factors can be important risk factors. Companies which conduct a good ESG policy are also better managed as a rule, have good management information systems and are better able to anticipate changing market conditions.

The wide difference in the significance of various ESG factors in emerging market sectors means that ESG risks are not always covered sufficiently by general guidelines. Nor does the legal and regulatory framework on environmental and social matters in emerging markets always afford sufficient protection. It is therefore not sufficient to assess ESG risks on the basis of compliance with general guidelines or ESG assessments by external parties. The EMC investment team itself therefore particularly considers the ESG risks of each investment.

PGGM adopted a more objective approach to assessments of ESG risks in the EMC portfolio in 2011. This poses a challenge particularly in the case of risks which would have a major negative financial impact but which are considered unlikely or very unlikely to materialise. PGGM is continuing this investigation in 2012 in order to arrive at a transparent assessment process and policy for EMC.

Other investment teams
In some investment teams, including Insurance, Commodities and Quantitative Strategies, it has been determined in the inventory phase that the financial integration of ESG factors is not applicable at present. No follow-up stages have therefore been defined for these teams.

Other teams not referred to above, including the Credits team that manages government and corporate bonds, have defined follow-up steps which PGGM is pursuing in 2012.

2.3 Other activities
Research into a More Responsible Beta Equity Portfolio
In 2011 we looked at how PGGM could increase its contribution to a more sustainable world in the passively managed equity portfolio (index). The basic principle was maintenance of the portfolio’s risk/return profile. We have also factored in the limiting of costs and reputation risks. This is no easy matter, but PGGM is thereby endeavouring to implement its active share ownership in a tangible way, even within a passive investment strategy.
We assessed three instruments and multiple scenarios with combinations of instruments, namely stricter application of the exclusions policy, intensification of engagement and adjustment of the index by selecting companies on the basis of ESG performances (enclosure and/or tilting). This assessment showed that all these investments offer specific possibilities for a more sustainable world. This research will be continued in 2012.

Evaluation of brokers
For a number of years, PGGM has taken account of responsible investment performance when evaluating the brokers with which we do business. We assess the extent to which environmental, social and corporate governance factors play a role in the investment research and other services which brokers provide. We observe major differences between brokers in this regard.

The integration of ESG in the broker policy was followed up in 2011. Discussions also took place with these service providers on the efficiency of service provision. We also began assessing how the brokers’ parent companies (often large international financial institutions) show responsibility towards stakeholders and society as a whole. An evaluation method was developed for this in 2011, on the basis of which a dialogue will be conducted in 2012 with various financial institutions with which we do business.

Investments in agricultural commodities
On 23 December a television programme was broadcast entitled ‘Handel in Honger’ (‘Trading in Hunger’), in which it was argued that institutional investors were contributing to rising food prices in the agricultural commodities future markets. Institutional investors, including pension funds, were held responsible for causing famine among the poorest people in the world.

PGGM is not convinced that such a connection exists. Research by the University of Wageningen and the World Bank has failed to identify such a relationship. In December, PGGM published a previously written position paper on this subject. The paper concluded that agricultural commodity prices were determined by structural demand (which is rising due to the growth of the global population and increased prosperity) and supply (influenced among other things by natural phenomena). Because PGGM does not trade in physical commodities (and has no direct or indirect transport or storage facilities), no physical commodities can be drawn from or supplied to the market by its clients. Hence they cannot influence the structural demand for and the supply of physical raw materials.

The programme also alleged that there was ample doubt about the effects of agricultural commodity futures on food prices. In 2012 we are investigating whether there were any new reasons to doubt the previously published research. We shall also closely monitor academic and other publications on this subject and remain in dialogue with external organisations, including NGOs affiliated with our clients. Further information can be found in the position paper on our website.
2.4 Outlook

2012 will be marked by the further development of the projects defined in the inventory phase. An important project in 2012 is addressing the question of how PGGM can integrate ESG in the strategic asset allocation for its clients. ESG integration in the strategic asset allocation means that ESG factors are taken into account when selecting investment categories to invest in and deciding how the assets will be allocated among the various categories. All individual investment teams have planned follow-up steps for 2012 based on the ESG frameworks. An example is ESG integration in the credits portfolio. RI will support the teams where necessary.

### Key performance indicators relating to ESG integration

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<td>Inventory (as % of total assets under management)*</td>
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<td>Started or completed in phase 2</td>
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<td>Implementation (as % of total assets under management)*</td>
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* Definition of started/completed ESG integration processes: asset classes are included in ‘started/completed’ if a structured and documented integration process has been started or completed. The inventory phase was completed for all assets under management in 2010, so a target is no longer relevant for 2012.
Examples of investment processes

Greening of existing offices
In 2009 we reported on the redevelopment of an office block in Frankfurt and on its successful leasing and sale in 2010. We also urged a German real estate fund to incorporate sustainability in another office block in Frankfurt, this time mainly through efficiency improvements in the installations and management measures rather than through redevelopment. As strong believers in making sustainability measurable, we also called for the office block to be certified. We are proud that the block is the first existing office building to have been awarded a certificate by Germany’s DGNB with a ‘Gold’ rating and the international BREEAM In-Use certificate with an ‘Excellent’ rating.

The Farmland Principles
On 6 September 2011 PGGM launched the ‘Farmland Principles’ jointly with a group of institutional investors. These guidelines relate to the sustainable management of nature and the environment, respect for human rights and the land rights of local population groups and upholding high ethical standards and values in agriculture projects. By signing this document, PGGM undertakes to implement these guidelines in its agriculture investments and to report publicly on its performance each year. This will be added to next year’s annual report.

The Farmland Principles
Principle 1 Promoting environmental sustainability
Principle 2 Respecting labor and human rights
Principle 3 Respecting existing land and resource rights
Principle 4 Upholding high business and ethical standards
Principle 5 Reporting on activities and progress towards implementing and promoting the Principles
3. Targeted ESG investments

Targeted ESG investments are investments which not only contribute financially to the performance for clients but are also intended to create social added value. Our clients thereby help to provide sustainable solutions to the world’s social problems. Examples are investments in clean technology, sustainable energy and investments which contribute to the fight against poverty.

By making targeted ESG investments, PGGM and its clients seek to consciously address important social themes, such as climate change and poverty. Targeted ESG investments can be made in all investment categories. The various investment teams are responsible for selecting them, with the support of the Responsible Investment department. Total commitments were increased to €4.7 billion in 2011. These are demarcated mandates.

Investments in ordinary mandates and portfolios, such as investments in solar panel manufacturers and hospitals, naturally have social relevance. These investments were not chosen with the intention of creating social added value and are not held in separate mandates. Therefore we do not report separately on these investments in this annual report.

3.1 Measuring social added value

In collaboration with the Erasmus Centre for Strategic Philanthropy (ECSP) at Erasmus University Rotterdam, PGGM has developed a framework to gauge social returns on targeted ESG investments.

On the basis of academic research, the framework gives an insight into the expected social impact of this type of investment. We work closely with the managers of ESG funds with the ultimate aim of measuring not only the expected but also the actual impact.

How does it work?
The information in the framework was acquired on the basis of a thorough study of the literature and consultation with experts and for each targeted ESG investment shows the expected impact on eight different areas:

1. Employment
2. Local development
3. Capacity building
4. Empowerment
5. Health and safety
6. Material use
7. Ecosystems
8. Waste and emissions

For each investment, this impact is set out in Social Impact Fund Fact Sheets. A fictitious example is shown in figure 3.1.
### Social Impact Fund Fact Sheet

#### Part I

**Fund Description**

The fund invests in renewable energy projects at all stages that use proven technology, with a focus on wind and solar power.

Current investments include:

- Solar PV: 65%
- Wind: 35%

**Fund Data**

- Total fund: EUR 300 mln
- Committed: EUR 100 mln
- Invested: EUR 25 mln

**Fund Impact on ESG Issues**

To mitigate climate change, the fund aims to play an active role in the necessary energy transition by financing sources of clean energy.

**Geography**

- Western Europe:
  - Germany, Spain, UK

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#### Social Impact Scorecard – based on academic research

**Comparision Situation**

Current European Energy Mix:

- Coal (31%)
- Gas (21%)
- Nuclear (19%)
- Oil (4%)
- Renewables (25%)

**Key Investment Impact**

Investing £1,800,000 in the Renewable Energy Fund will lead to 743 tCO2 emissions per year.

This equals the emissions of driving 4,856.209 km with an average new passenger car.

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### Social Impact Fund Fact Sheet

#### Part II

**Use of toxic materials in solar panels**

The use of toxic materials in photovoltaic (PV) solar panels, such as chloro-silanes, germane and phosphorous oxychloride, is an important issue for solar energy as they can lead to environmental, health and safety (EHS) hazards during the manufacturing and disposal of solar panels.

**Land use**

Land use issues are a concern for all renewable energy technologies. The extent to which this will lead to e.g., negative environmental impacts depends on the type of land use change that has taken place, whether dual land use opportunities are created, and whether land use changes have exacerbated food insecurity as arable land is now used for energy purposes.

**Biodiversity**

Biodiversity concerns of wind energy are related to animal and bird life. Birds and bats can be killed when they collide with the rotor blades of wind power plants. This can also lead to changes in bird migratory patterns, with additional (indirect) impact on biodiversity and animal life.

These effects can be mitigated by careful environmental assessments prior to determining project locations.

**Indicator Category**

<table>
<thead>
<tr>
<th>Indicator Category</th>
<th>Suggested Impact Indicators for Fund Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced CO2 emissions</td>
<td>Total energy generated in kWh/year</td>
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<td></td>
<td>NB Define appropriate comparison situation</td>
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<tr>
<td>Direct employment</td>
<td>Total employees in FTE/year; % of which temporary employees (&lt;1 year; &lt;2 year)</td>
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<td></td>
<td>NB Specify per project phase, i.e. construction, DBM, dismantling</td>
</tr>
<tr>
<td>Toxic material use</td>
<td>Indicate what types of toxic materials are being used</td>
</tr>
<tr>
<td>(relates to solar PV panels)</td>
<td>Amount of toxic materials used in product in kg/unit (i.e. per solar panel – indicate surface size)</td>
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<tr>
<td>Innovation</td>
<td>Total R&amp;D expenditures /year</td>
</tr>
<tr>
<td>Land use</td>
<td>Total land use in ha/kWh, % of land with dual land purposes, prior land use in case of land use change</td>
</tr>
<tr>
<td>Health and safety</td>
<td>Trend data on key HSE statistic (e.g. regarding injury rates, occupational illness and fatalities)</td>
</tr>
</tbody>
</table>

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Prepared for PGGM Investments by the Erasmus Centre for Strategic Philanthropy (March 2011)

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Figure 3.1 Social Impact Fund Fact Sheets
The expected impact of each fund is reflected in a score on a scale of -3 (highly negative impact) to +3 (highly positive impact) and is illustrated by a spider chart, the Social Impact Scorecard. The fact sheets also detail the specific situation and the composition of the funds to explain the expected impacts of each fund.

The fact sheet also shows a calculation of the main social effect of an investment of €1 million in a specific fund.

Future
We shall continue to develop the framework. We are currently working closely with various external fund managers in order to measure the actual impact. Approaches aimed at measuring the social added value of investment funds are still in their infancy. We therefore believe it is important to support initiatives aimed at standardisation. For example, we are working with IRIS, an organisation developing impact indicators.

For more background information, see the published article entitled “Social impact scorecard” on our website.

3.2 Targeted ESG mandates

Responsible equity portfolio (REP)
In 2011, REP managed a portfolio of €3 billion with 16 listed companies spread across various industrial sectors in Europe and North America. A number of ESG engagement milestones were reached with the portfolio companies in 2011:

- Two companies published annual sustainability reports for the first time. A third company is expected to follow suit at the beginning of 2012.
- A sustainable purchasing policy is being drawn up jointly with a food producer.
- By means of an engagement project, a centralised sustainability plan and an associated team were set up in a worldwide insurance broker to integrate ESG across all the company’s product groups.

> ‘REP: Mettler Toledo’, p. 35

Structured credit
Through two transactions with Banco Santander, one of our clients is sharing in the credit risk of its European project finance portfolio. One of the unusual features of these transactions is that a large proportion of the underlying loans (currently 57%) relate to the financing of alternative energy, such as solar and wind power.

Microfinance
The aim of microfinance is to open up access to financial services (microsavings products, microinsurance, micropensions) for parts of the population that are excluded from the traditional banking sector. Therefore it is also referred to as ‘inclusive finance’.

In January 2011, the ‘Principles for Investors in Inclusive Finance’ were launched. The seven principles state that responsible institutional investors in, and managers of, microfinance funds must centre their activity on the long-term interests of the end-customer and the long-term development of the sector. PGGM was one of the founders of the principles and participates in the PRI steering committee on the ‘Principles for Investors in Inclusive Finance’.

Due to the persistent problems in the microfinance industry, PGGM decided in 2011 to scale back the loan portion of the microfinance portfolio while maintaining the microfinance private equity portion. That does not diminish the commitment on the part of one of our clients to play an active part in resolving global poverty. PGGM will continue to look for investment possibilities aimed at reducing poverty and to that end has broadened the investment mandate to include other potential investments and investment instruments in the social and environmental areas.

Private equity
PGGM granted a separate mandate to AlpInvest in 2007 to invest worldwide in clean technology (cleantech) through private equity. In the composition of the portfolio, the aim is to strike a balance between funds aimed at innovative technologies and funds investing in more developed and proven technologies. Both categories improve the efficient use of natural resources and reduce the impact of energy consumption on the environment. Currently, €250 million has been committed to 12 specialist funds in America, Europe and Asia. By the end of the first half of 2011, nine of these funds had invested in 114 companies.
PGGM also invests directly on behalf of its clients in the IFC African, Latin American, and Caribbean Fund. With this investment IFC creates possibilities for poor people in developing countries in Africa, Latin America and the Caribbean. IFC does this out of a conviction that developing the private sector is the most effective way for developing countries to grow, create jobs and empower people to escape poverty.

Infrastructure
In Infrastructure there are three investment funds which invest solely in sustainable energy projects, mainly in Europe. These funds made a number of new investments in 2011, mainly onshore wind projects in the United Kingdom and southern Europe. At the end of last year, the BNP Clean Energy Fund successfully raised finance for a large-scale biomass project in the United Kingdom, enabling work to start on the construction of a straw-fired power plant. This plant will meet the electricity needs of around 65,000 households by burning a fuel made of regional agricultural by-products, thus providing a boost to the local economy. In addition, the Walney offshore wind project was almost completed and began to generate green power in 2011. Infrastructure also investigated many new sustainable energy projects and relevant stimulus measures in 2011. This is expected to lead to direct investments in these projects in 2012.

Real assets
Three investments in the Real Assets portfolio are targeted ESG investments: the Climate Change Capital Carbon Fund (€32 million invested), which invests in carbon credits, the GMO Long Horizons Forestry Fund (€137 million invested) and the Conservation Forestry Parallel Fund II-B (€65 million invested), which both invest in forestry. In 2012, PGGM will refine the measuring instrument so that it is not only able to measure the expected social added value but can also monitor the actual social added value of the Real Assets portfolio. PGGM is in discussions with fund managers on this matter.

Strategic portfolio and relations
The strategic portfolio consists of investments with relatively large interests in companies or funds which have a strategic nature or are focused on co-operation. An example of a relevant ESG investment in this portfolio is the interest in Triodos Bank.

PGGM is also a co-owner of Sustainalytics (7%), an international provider of information on the ESG performances of companies, institutions and countries.

PGGM has invested €302 million on behalf of one of its clients in Albright Capital Management, which makes targeted investments in emerging markets chosen to a large extent on the basis of ESG factors. Albright Capital Management also actively pursues improvements in conduct and local regulations.

3.3 Outlook
PGGM is looking to make targeted ESG investments in all investment categories again in 2012. We also aim to gain greater insight into the actual and expected social returns on the targeted ESG investments and to report on them in 2012.

### Key performance indicators relating to targeted ESG investments

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Target 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Targeted ESG investments (€ million)</td>
<td>2,568</td>
<td>3,711</td>
<td>4,730</td>
<td>≥ 5,200</td>
</tr>
<tr>
<td>As % of total assets under management*</td>
<td>2.9%</td>
<td>3.6%</td>
<td>4.1%</td>
<td></td>
</tr>
</tbody>
</table>

* Since the assets under management at the end of 2012 are not known, no targets are stated as a percentage of assets under management.
Examples of targeted ESG investments

**REP: Mettler Toledo**
As at 31 December, REP had a €129 million interest in Mettler Toledo (MTD), a Swiss manufacturer of precision measuring instruments, which supplies equipment to both industrial and pharmaceutical companies. MTD’s product portfolio comprises a range of products which promote public health and enable companies to measure product and emission quality with a view to taking corrective measures. For example, MTD offers a wide range of measuring instruments for the medical sector. REP’s investment in MTD was conditional upon the company developing a plan to integrate sustainability in the company’s core values and the resulting policy. On this basis, the company is required to publish a report stating the progress it has made in the field of sustainability. In 2011, the company published its first sustainability report with targets going beyond those originally agreed with REP.

**AlpInvest: Pattern Energy**
The Renewable & Alternative Energy fund II of Riverstone/Carlyle founded Pattern Energy in 2009. This fund is part of the cleantech mandate managed by AlpInvest. Pattern Energy focuses on the development of renewable energy, principally wind energy in North America. Pattern Energy also develops and maintains energy transmission systems for the efficient distribution of the generated energy. The company’s mission is to offer customers clean and sustainable energy and distribution solutions.

The company was formed in co-operation with the former management of Babcock & Brown’s North American energy group. Pattern Energy employs nearly 100 people, many of whom have experience in the development, financing and implementation of wind energy projects and previously worked on projects representing over 2 GW of wind generation assets. The transaction included a development pipeline of over 4 GW of various projects in the United States, Canada, Argentina and Chile. An example is the joint venture with Samsung Renewable Energy to develop wind farms in Spring Valley in the United States, which will enter service in the summer of 2012. According to the American Wind Energy Association, the energy supplied (compared to the equivalent energy generated by a coal-fired plant) will offset CO₂ emissions equal to taking 52,000 cars off the road each year and conserve enough water to supply nearly 6,000 people each day.

Pattern Energy is also developing a wind farm in Spring Valley in the United States, which will enter service in the summer of 2012. According to the American Wind Energy Association, the energy supplied (compared to the equivalent energy generated by a coal-fired plant) will offset CO₂ emissions equal to taking 52,000 cars off the road each year and conserve enough water to supply nearly 6,000 people each day.
4. Voting

Voting is one of the most important rights a shareholder has. We therefore vote on the basis of our own judgement and guidelines at shareholders’ meetings. Informed voting contributes to the attainment of good corporate governance. We focus particular attention on shareholder resolutions in the environmental and social area.

We are convinced that informed voting contributes to the creation of shareholder value, in both the short and long term. High attendance at shareholders’ meetings also promotes stability in decision-making, ensures broad support for resolutions and prevents small groups of shareholders from taking control of the meeting.

We therefore consider informed voting to be an important activity for responsible investors. The Listed Equity Ownership Policy (LEOP) forms the basis of our voting policy. PGGM has formulated custom voting guidelines which are updated annually. These ‘Global Voting Guidelines’ specify as far as possible how PGGM will vote on a large number of subjects that are liable to arise on the agenda at shareholders’ meetings.

4.1 Voting policy

PGGM’s objective is to vote at all shareholders’ meetings of all companies in the portfolio, although voting at all meetings is not always possible. For example, there may be errors in the voting chain, and voting in some markets (blocking markets) is very complicated for investors. Blocking markets are those in which shares are blocked for a certain period – and thus cannot be traded – if the investor uses his voting right. In most cases, therefore, we do not vote in blocking markets. PGGM is endeavouring to have blocking abolished in markets such as Belgium and Italy.

A particular category in the voting policy concerns companies on the Voting Focus List. We devote particular attention to the meetings of companies on this list. At these meetings we vote in respect of the entire shareholding on the basis of our own judgement, even if this leads to the blocking of the shares. Companies are placed on the Voting Focus List if they fulfil specific criteria.

The 2011 Voting Focus List comprises companies which:
- are listed on the Dutch stock exchange or have a clear Dutch background; or
- have emerged from our engagement programme and whose inclusion in the Voting Focus List creates added value; or
- are among the largest listed holdings (>3% of voting rights); or
- are part of the internal real estate portfolios and have been selected by the Listed Real Estate Department; or
- are part of the Responsible Equity Portfolio.

The Voting Focus List comprised a total of 74 listed companies in 2011. When the list was drawn up, these companies represented 12% of the total value of all listed investments in the portfolio.

In the case of companies on the Voting Focus List, we vote actively and on a well-informed basis by:
- attending the shareholders’ meetings ourselves; or
- being represented at the meeting by another institutional investor; or
- voting by proxy.
PGGM was invested in over 2,800 listed companies on behalf of its clients at the beginning of 2011. The wide geographic spread means it is impossible to attend all meetings. We therefore vote mainly by proxy at shareholders’ meetings. PGGM voted by proxy at almost all shareholders’ meetings outside the Netherlands in 2011. A number of meetings of Dutch listed companies were attended by representatives of PGGM. In a few cases we also attended meetings of foreign companies, for example if there was a particular reason such as an engagement project with the company.

For voting at companies not on our Voting Focus List, we use a voting service provider. The votes cast by this provider are based on a custom policy which accords with our own voting policy. Hence we vote in accordance with our own policy and not in accordance with this provider’s standard voting instructions. PGGM issued voting instructions which differed from the standard recommendation on over 9% of the agenda items in 2011. Voting differently is not an objective in itself. This percentage shows that PGGM makes its own assessments. In addition, there are generally only three voting options (for, against or abstention), and different assessments can result in the same voting decision.

It is important to bear in mind that on average PGGM holds only 0.19% of a company’s issued shares in its portfolio. Such percentages mean we are rarely able to determine the outcome of the vote.

4.2 Implementation of the voting policy

Votes were cast at 99.5% of all annual and extraordinary shareholders’ meetings in 2011. The target of voting at more than 95% of meetings was therefore achieved. In the case of companies on the Voting Focus List, PGGM voted at 98.8% of all meetings in 2011.

The bulk of the agenda items on which we voted in 2011 were proposed by the boards of the companies concerned. This was the case in 97.5% of all agenda items. Resolutions were received from shareholders themselves in relatively few cases, amounting to only 2.5% of the agenda items.

The 25 Dutch listed companies represented in the portfolio in 2011 held a total of 30 annual general meetings (AGMs) and extraordinary general meetings (EGMs). PGGM personally attended nine of these meetings and voted by proxy at the remaining 21 meetings. In addition, PGGM personally attended two meetings of trust offices (Unilever and ING). PGGM opts for personal representation if there are agenda items on which we wish to explain our views. We may also require more information on the management’s motivation and points of view. Companies and other interested parties wishing to know why we have voted against the management on a particular agenda item can find a statement of our grounds on our website.

PGGM voted in favour of the agenda item in 27,637 cases and against in 5,474 cases in 2011. We abstained on 721 agenda items. Although we prefer not to abstain, in the case of many directors’ appointments (mainly) in the United States it is the only alternative to a vote in favour. Since it is common practice in the United States for all board members to be reappointed annually, this number is relatively high compared to other regions. 661 (92%) of PGGM’s abstentions in 2011 concerned such votes.

The number of dissenting votes amounted to 16.2% of all the votes we cast. That represents a considerable decrease compared to 2010, mainly due to the fact that PGGM no longer votes worldwide against the reappointment of non-executive and supervisory directors if they have served in that role for more than 12 years. Instead, we no longer consider these non-executive and supervisory directors to be independent and will vote against only if the majority of the board of directors or the supervisory board is not independent. In addition, from this year PGGM is voting against variable pay only in the case of two-tier boards. Where there are two-tier boards, the members of the upper tier have a mainly supervisory role. That is in contrast to single-tier boards (with executive and non-executive directors), in which the non-executive directors not only have a supervisory role but also share responsibility for the company’s strategy and financial performance.
Breakdown of shareholders’ meetings by region in 2011

Breakdown of management resolutions in 2011 (by category)

Breakdown of shareholder resolutions in 2011 (by category)

1. 2011 financial year. For the voting figures we use both our own databases and Riskmetrics data.
A total of 151 meetings took place in blocking markets in 2011. In accordance with our policy, we did not vote at these meetings. Votes were not cast at 16 meetings due to the absence of ballots, incorrectly lent positions or other reasons. These cases therefore involved deficiencies, which we endeavour to keep to a minimum.

**ESG agenda items**

We are informed weekly of agenda items concerning environmental, social or corporate governance factors. We devote additional attention to such resolutions. In determining our voting choice, we carefully assess the possible impact of these ESG factors, considering their effect on long-term value creation, the continuity of the company’s activities and its ESG performance. We support shareholder resolutions unless:
- the resolution does not accord with our voting policy;
- the resolution is not relevant to the company;
- the executive board sufficiently diminishes the relevance of the resolution, or has other convincing reasons for not supporting it.

The number of investee companies decreased from over 4,000 to approximately 2,800 at the end of 2010. The number of agenda items voted on relating to environmental and social conditions consequently also decreased, from 162 to 146. In relative terms, however, that represents an increase in environmental and social agenda items as a proportion of all agenda items.

### Aggregate results of voting on management recommendations

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of meetings at which votes were cast</td>
<td>4,678</td>
<td>4,722</td>
<td>3,224</td>
</tr>
<tr>
<td>Number of agenda items on which votes were cast</td>
<td>40,819</td>
<td>42,186</td>
<td>33,832</td>
</tr>
<tr>
<td>Number of votes in favour of management recommendation</td>
<td>34,393</td>
<td>28,627</td>
<td>27,487</td>
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<td>Number of votes against management recommendation (including abstentions)</td>
<td>6,426</td>
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<tr>
<td>Number of votes in favour of management recommendation</td>
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<td>Number of votes against management recommendation (including abstentions)</td>
<td>15.7%</td>
<td>32.1%</td>
<td>18.8%</td>
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</table>

4.3 Outlook

The Voting Focus List for 2012 comprises 72 companies (2011: 74 companies). In 2012, PGGM will again contact a number of companies on the Voting Focus List before their shareholders’ meetings. For example, if we have written to the company in the past in connection with a vote against the management’s recommendation and wish to engage in a dialogue on the matter. In addition, as in 2011, we will vote internally, actively and on an informed basis on more than 50% of total equity assets under management. In 2011, we voted in this way at 64% of all shareholders’ meetings. Our aim is to further increase the quality of our voting by providing more scope for dealing with particular situations and our own insights.
## Breakdown of voting behaviour by agenda items in 2011

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<td>Votes on agenda items in line with management recommendation</td>
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## Voting results by ESG theme

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<tr>
<th>Category</th>
<th>Environment &amp; Health</th>
<th>Social Conditions</th>
<th>Corporate Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of agenda items</td>
<td>88 116 104 32 46 42</td>
<td>40,699 42,024 33,686</td>
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<tr>
<td>Votes in favour of agenda items</td>
<td>86 47 22 28 20 10</td>
<td>34,747 29,045 27,570</td>
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<tr>
<td>Votes against agenda items</td>
<td>10 53 18 22 22 31</td>
<td>4,652 10,410 6,399</td>
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<tr>
<td>Abstentions on agenda items</td>
<td>2 6 4 0 0 1,300 2,569 717</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Votes in line with management recommendation</td>
<td>29 40 53 10 15 20</td>
<td>34,354 28,572 27,414</td>
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</tr>
<tr>
<td>Votes not in line with management recommendation</td>
<td>59 76 51 22 31 22</td>
<td>6,345 13,452 6,272</td>
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</table>

## Shareholders’ meetings in 2011

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<tr>
<th>Category</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Votes cast</td>
<td>3,224</td>
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<td></td>
</tr>
<tr>
<td>No votes cast due to blocking</td>
<td>151</td>
<td></td>
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</tr>
<tr>
<td>No votes cast for other reasons</td>
<td>16</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Key performance indicators relating to voting

<table>
<thead>
<tr>
<th>Category</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Target 2012</th>
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</thead>
<tbody>
<tr>
<td>Number of shareholders’ meetings (AGMs and EGMs) at which votes were cast</td>
<td>4,678</td>
<td>4,722</td>
<td>3,224</td>
<td></td>
</tr>
<tr>
<td>Number of votes cast</td>
<td>40,819</td>
<td>42,186</td>
<td>33,832</td>
<td></td>
</tr>
<tr>
<td>Number of AGMs and EGMs at which votes were cast as % of total number of AGMs and EGMs</td>
<td>99%*</td>
<td>99%*</td>
<td>99.5%*</td>
<td>98%</td>
</tr>
<tr>
<td>Number of AGMs and EGMs at which votes were cast as % of Voting Focus List</td>
<td>99%</td>
<td>100%</td>
<td>98.8%</td>
<td>99%</td>
</tr>
</tbody>
</table>

* For the percentage of AGMs and EGMs at which votes were cast, non-voting in blocking markets outside the Voting Focus List is no longer included, since the policy in such cases is not to vote.
Examples of voting

Voting against the BP board
On 14 April 2011, barely a year after the explosion on the drilling platform in the Gulf of Mexico, BP held its annual general meeting. The meeting was dominated by the accident and its consequences for the company, the affected community, the natural environment and the industry as a whole.

For PGGM too, the accident in the Gulf of Mexico was crucial in determining our votes on a large number of agenda items. For example, we decided to vote against the reappointment of board members who were in office at the time of the accident. The combination of insufficient management supervision and inadequate public reporting on the changes and planned corrective measures meant that PGGM had insufficient confidence in the ability of the sitting members of the BP board to prevent accidents in the future.

The Gulf of Mexico accident was not the first major accident BP had suffered this century. There had previously been a major leak in Alaska and a large explosion in Texas. PGGM therefore concluded that safety supervision fell short of the required standard. In our opinion, the entire board is ultimately responsible for supervising safety and risk management and such matters are not solely the responsibility of BP’s Safety, Ethics and Environment Assurance Committee (SEEAC). We therefore voted against the reappointment of the sitting board members.

In the months after the accident, BP itself carried out a detailed investigation into the causes of the accident. This led to 26 recommendations, which the company accepted and implemented in full. Prior to the shareholders’ meeting, PGGM raised questions about the implementation of the recommendations. In particular, the public reporting on progress was very limited. PGGM emphasised that public reporting on progress was of great importance to shareholders and other involved parties in order to assess how energetically the company was implementing the recommendations and how capable it would be of avoiding such accidents in the future. The importance of this is underlined by the fact that the accident damaged the company’s future and reputation and BP cannot afford any further safety errors.

A majority of shareholders ultimately voted in favour of the sitting board members, but the signal sent by critical shareholders such as PGGM voting against reappointment was loud and clear and heard by the company. BP now reports publicly on the progress made in implementing the recommendations from the internal investigation.

Safety of TEPCO nuclear plants
On 11 March 2011 Japan was struck by a tsunami and a serious nuclear accident. The Fukushima Daiichi power plant proved unable to withstand a severe earthquake followed by a tsunami. A failure of the cooling system led to a meltdown in three reactors.

Although the circumstances in which this accident occurred were unique, PGGM believes the company can be held partly responsible for the serious consequences. The company has not always pursued the highest safety standards in the past. For example, in 2007 it admitted falsifying safety data around 200 times between 1977 and 2002. The most serious case was in 1992, when the company concealed a defect on a pump designed to cool the system in the event of an emergency. Since then the company has struggled to maintain credibility on safety matters.
The doubtful past record combined with the seriousness of the accident determined the way in which we voted on resolutions to reappoint board members. PGGM is not sufficiently confident that the sitting board members will take steps to ensure that TEPCO can manage nuclear plants safely.

This doubt was underlined by a discussion we had with the chairman of the company. During the discussion we sought an explanation of the corporate governance measures TEPCO had taken or planned to take in the very near future. Specifically, we drew attention to two minimum steps: increasing the board’s safety knowledge and safety criteria in the remuneration policy. The company is considering both changes but was unable to reveal any concrete plans. PGGM therefore voted against the reappointment of all board members. Since the majority of shareholders voted in favour, the board members were appointed for a further term of office.

In addition to the reappointment of board members, a resolution had been placed on the agenda by a number of activist shareholders under the name of ‘Nuclear Phase-Out TEPCO Shareholders’ Movement’. This group called on TEPCO to phase out nuclear energy completely. Although this resolution was not entirely inappropriate in view of the events in March and the serious doubt which PGGM shares concerning TEPCO’s safety management capabilities, PGGM did not support it. The resolution called for an end to TEPCO’s nuclear energy activity, starting with the permanent shutdown of the oldest reactors, followed by the shutdown of newer reactors. In addition to the fact that the damaged reactors at Fukushima had already been permanently shutdown, PGGM believes that the decision on the future of nuclear energy in Japan is primarily the responsibility of the Japanese government. PGGM therefore decided not to support these far-reaching shareholder resolutions.

Public concern and disquiet about radioactive pollution of air, water, soil and food prompted Prime Minister Kan to issue statements in May on the phasing out of nuclear energy in Japan. The Japanese government then published an interim report in July, stating that it wished to reduce the dependency on nuclear energy.
Demerger of TNT

In 2010 TNT announced its intention to demerge the Post and Express business units. In advance of the demerger, we entered into a dialogue with TNT on the corporate governance of TNT Express. PGGM endorses the reasons for the demerger of this business unit and the strategic profile of TNT Express.

However, PGGM considered that the corporate governance structure in place at the time of the TNT Express IPO was inadequate. PGGM believes that newly listed companies should at least comply with the prevailing best practices in terms of corporate governance. We considered that TNT Express would be excessively protected at the time of its flotation and that it had not yet been made sufficiently clear how the corporate governance principles and/or best practices would be applied.

Our analysis gave rise to a dilemma. We could endorse the decision to float the Express division on the basis of strategy or could withhold our approval on the basis of corporate governance considerations. For this reason we attended the annual general meeting (AGM) in 2011 and requested the board to provide more a detailed explanation of the corporate governance structure and concrete proposals to improve it.

Prior to the AGM, the chairman of the executive board told shareholders that a shareholder vote against the discharge of the Supervisory Board would be considered ‘inappropriate’. The board chairman was responding to recommendations by the voting advice service provider ISS advising TNT shareholders not to grant discharge to the supervisory board in order to demonstrate their dissatisfaction. We concur with the board chairman on this point. Although the executive and supervisory boards are responsible for the design of the demerger, PGGM believes that our dissatisfaction with it should be expressed not through these agenda items but in a vote on the demerger. We therefore voted in favour of the discharge of both the executive board and the supervisory board. The majority of shareholders nevertheless voted against the discharge of the supervisory board.

During the meeting we were not convinced by the explanation and arguments put forward by the executive board of TNT in favour of the corporate governance structure chosen for TNT Express. Nor were any commitments given to improve the corporate governance structure in the near term. In weighing up the various interests, we ultimately attributed greater importance to a good corporate governance structure for TNT Express than to the strategic reason for the demerger.

We voted against the demerger on the grounds that with the proposed structure TNT Express would be making a false start as an independent listed company. Unfortunately, the majority of shareholders nevertheless voted in favour of the resolution. We are entering into consultations with TNT Express on the necessary corporate governance improvements and are closely monitoring the current developments relating to a possible acquisition of TNT Express.

Heads roll at News Corporation

The annual general meeting of News Corporation, one of the world’s largest media companies, took place on 21 October 2011. A few months earlier, News Corp. had been in the news for all the wrong reasons when it emerged that one of its newspapers, the News of the World, had been involved in a major telephone hacking scandal reaching the highest echelons of British society. The hearings held as part of the inquiry into these hacking practices gave the strong impression that executives right up to the top of the company must at the very least have tolerated these practices. The scandal caused major damage to the company’s reputation and a fall (albeit a short-lived one) in its share price. PGGM considered that the News Corp. board was responsible for preventing such problems and, if necessary, for resolving them rapidly and appropriately. As this had not happened at News Corp., PGGM voted against the reappointment of all sitting directors. Although a large number of shareholders reached the same conclusion, all directors still received a majority of votes. That was mainly because the founder and CEO of News Corp., Rupert Murdoch, holds 40% of the shares.

First year of Say on Pay

‘Management Say on Pay’ (MSOP) was introduced in the United States in January 2011 as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In past years, PGGM has consistently supported shareholder resolutions calling for the introduction of say on pay and therefore welcomes this legislation. ‘Management Say on Pay’ means that large companies (with a free float of $75 million or over) are required to place remuneration resolutions on the agenda, thereby enabling shareholders to cast a vote, albeit only with advisory force. This gives shareholders a say on matters such as the correlation between executive pay and the company’s performance.
Say on pay comprises three elements:
- The remuneration of executive directors (ranging from fixed salary and variable pay to elements such as private use of a company aircraft);
- The compensation paid after termination of an employment contract in a merger or acquisition;
- The frequency with which such resolutions are submitted to shareholders’ meetings, i.e. every one, two or three years.

In contrast to the situation in the Netherlands, approval is sought not for company’s remuneration policy but for the remuneration itself and the structure on which it is based. The ‘say on pay’ method in the United States is therefore largely retrospective. Our preference by far is for the introduction of a remuneration policy as in the Netherlands, in which the non-executive directors are responsible for its implementation and can be judged accordingly (by the granting of discharge or reappointment).

Unfortunately, this ideal is still very remote in the United States and is not achievable in the near future. We shall nevertheless continue to argue for it and draw attention to it in the United States.

PGGM was able to vote on 659 say-on-pay resolutions in 2011. Of these, 157 did not fulfil our criteria and we voted against them. PGGM voted against 24% of all say-on-pay resolutions. In 2011 as a whole, 11 such resolutions, which we also voted against, failed to secure a majority of votes at the meeting. Shareholders thus sent a signal to the companies concerned that the current pay structures were unsatisfactory and that they would be expected to change them in the future.

Undesirable selling of voting instructions
PGGM uses custodians, which act as depositories for shares and other securities. A number of PGGM’s custodians use the services of Broadridge. They provide operational support for voting. At the end of 2010, PGGM’s attention was drawn to the fact that Broadridge, whose links with our custodians meant it was also involved in voting on behalf of PGGM, was allegedly selling the voting instructions to companies, without seeking explicit consent from the shareholders themselves.

A large number of custodians have appointed Broadridge to handle the voting process. A consequence of the sale of voting instructions was that in the case of proxy voting (using an electronic voting system) the companies could pay a sum of money to gain an early indication of their shareholders’ voting decisions. Although the shareholders were not named, the quantities of shares and the instructions (for, against or abstention) were disclosed. This meant that the result of the vote was often determined before the actual shareholders’ meeting and was known to the companies which purchased this information from Broadridge. Because only the company was made aware of this, it clearly had an information lead over the shareholders. This issue has also raised the legal question of who actually owns such information. Following this report, PGGM investigated this question and raised it with its custodians.

PGGM then demanded that its custodians cease sales of its voting instructions (by means of an opt-out). All our custodians ultimately complied with this demand. PGGM also drew other investors’ attention to these practices and held discussions with the responsible officers within Broadridge to make its views known.

During a meeting with the person responsible for this product at Broadridge in November, it emerged that as a result of all the cancellations this product was likely to be discontinued in the near future, partly due to PGGM’s efforts. Although PGGM is satisfied with this outcome, we shall remain in dialogue with both custodians and other parties involved in the voting chain in order to prevent voting instructions being used by third parties for commercial purposes in future.
5. Engagement

As a responsible investor we see it as our responsibility to address the policy and activities of companies and markets. We call this engagement and our aim is to bring about improvements in the environmental, social and corporate governance (ESG) field in the belief that this ultimately contributes to a better social and/or financial return on our investments.

5.1 Engagement policy and approach

We define engagement as the overall activities carried out in order to achieve ESG improvements in dialogue with companies and markets. The engagement policy is part of the Listed Equity Ownership Policy (LEOP). We carry out many engagement projects ourselves or jointly with partners. We call this direct engagement. In order to expand the scope of the engagement projects, we have outsourced part of our engagement activities to the British specialist asset manager F&C. These projects are described as indirect engagement.

5.2 Direct engagement

In our engagement programme we focus on four main themes which are consistent with our identity and in which we expect to bring our influence to bear:
- good corporate governance
- human rights
- climate change
- health

New: sector-oriented approach to engagement

Although the themed approach helps in setting priorities, it can also be restrictive. To maintain an effective dialogue with companies it is often useful to discuss several subjects that are relevant to the sector in which the company operates. This year we have therefore worked on a new, more sector-oriented approach to engagement. The main themes in our policy have been retained, but are supplemented in the dialogue by themes that are relevant to the company or sector. This approach gives us greater insight into the companies in the portfolio, the risks that they face and how they perform compared to other companies in their sector when it comes to controlling these risks.

This year we have introduced this new approach for sectors with a high ESG risk: oil & gas, mining and the food industry. For each of these sectors, we have assessed the significant ESG risks and opportunities, the main reputation risks and the indicators that can be used to gauge the companies’ performance in these areas. We have used these indicators to award scores to all the companies in these sectors.
Engagement figures, direct and indirect engagement

Breakdown of company engagement activities by subject in 2011

Geographic spread of company engagement activities in 2011

Geographic spread of company engagement milestones in 2011

2. 2011 financial year. For the voting figures we use both our own databases and F&C data.
The aim was to not only to pinpoint the major risks, but also to identify the leaders and laggards. PGGM is using this analysis to define engagement plans in each sector with a high ESG risk. The sector analyses revealed that water scarcity is one of the growing ESG risks and that the palm oil sector has a major impact on the climate. It was therefore decided to engage with a number of companies specifically on these themes.

- ‘Engagement in the mining sector’ p. 55
- ‘Engagement for sustainable palm oil’ p. 55
- ‘Water scarcity, growing risk for investors’ p. 57

Direct engagement projects
We use a range of sources to formulate possible engagement projects with companies and markets. These include external data suppliers, brokers, other institutional investors, information from shareholders’ meetings and our own research. New engagement projects are selected on the basis of criteria such as priority, effectiveness and capacity. We also monitor current events closely. New engagement projects start with an engagement plan describing our goals and the engagement results we want to achieve with the companies and/or market participants. Engagement projects usually have a lead time of several years before they deliver results. We therefore continued existing engagement projects in 2011 as well as starting new ones. We divide our engagement projects into three types: company engagement, regulatory engagement and best practice engagement.

Company engagement
In the case of company engagement we focus our dialogue specifically on a company, addressing subjects that are relevant to that specific company, such as its human rights policy. In 2011 we conducted direct company engagement with 154 companies.

> ‘Openness at Shell’ p. 61

Regulatory engagement
We often use co-operation within networks, such as the PRI or Eumedion, to influence relevant legislation and regulations with a view to bringing about improvements in the environmental, social and corporate governance areas. We seek a dialogue with market participants such as regulators and policymakers. We call this ‘regulatory engagement’. In 2011 we conducted 20 regulatory engagement projects, including in the field of shareholder rights in the United States.

> ‘Climate change in Australia’ p. 60

Best practice engagement
Efficient markets and financial systems are of great importance to PGGM as a responsible investor. We therefore initiate or support engagement activities in order to improve standards. We call this ‘best practice engagement’. As part of these engagement activities we may talk to groups of companies in particular sectors or address certain subjects, for example to encourage support for a voluntary standard or code. We took part in 12 best practice engagement projects in 2011, reaching 114 companies.

> ‘Engagement for sustainable palm oil’ p. 55

5.3 Indirect engagement
Part of the engagement activities are carried out on behalf of PGGM by the British company F&C. We work closely with F&C to define priorities in its engagement activities. F&C conducted intensive dialogues with a total of 453 companies worldwide in 2011, including on behalf of PGGM.

<table>
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<th>Subject</th>
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<th>2011</th>
</tr>
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<td>business ethics</td>
<td>9</td>
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<td>15</td>
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<td>Responsible enterprise and reporting</td>
<td>96</td>
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<td>Environmental management</td>
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<td>Ecosystems</td>
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<td>Climate change</td>
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<tr>
<td>Health</td>
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<td>10</td>
<td>6</td>
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<td><strong>Total</strong></td>
<td><strong>316</strong></td>
<td><strong>355</strong></td>
<td><strong>335</strong></td>
</tr>
</tbody>
</table>
Examples of milestones achieved in 2011:
- Improved consumer information on nutritional values and setting of targets for the percentage of healthy food on the shelves in major international supermarket chains;
- Development of a broad human rights policy by a European mining company operating in high-risk countries;
- Improved executive board supervision of environmental issues by establishing a specific board committee in an Asian steel company;
- Significant reduction in SO\textsubscript{2} (sulphur dioxide) emissions in a Russian mining company;
- Formation of a team to turn waste management into a profitable business unit in a European building materials company.
- Insight into the added value of products for the sustainability performance of customers in a global software developer.
- Improvement of sustainability reporting in an international electronics group.
- Development and publication of policy on working conditions in an Asian developer and producer of ICT products.

5.4 Corporate governance

The main points of our corporate governance activities in 2011 were:
- a responsible remuneration policy;
- the operation of corporate governance codes in Europe and the US;
- the ‘one share-one vote’ principle
- informed voting at shareholders’ meetings.

We carried out assessments of remuneration policy proposals once again in 2011. We drew companies’ attention to the need for a responsible remuneration policy, in which the long-term objectives were particularly important in gauging the effectiveness of the remuneration policy, and whether the company’s chosen strategy was consistent with the policy. PGGM applies various criteria to assess whether to support a proposed remuneration policy. These are based partly on the Eumedion recommendations. Non-financial factors are increasingly taken into account in assessments of remuneration proposals.

In the field of corporate governance, PGGM plays an active part in cooperative relationships, both with regard to remuneration issues and on many other subjects. These include ACGA and Eumedion.

Eumedion is a Dutch platform for institutional investors, which promotes the interests of its participants in matters relating to corporate governance and sustainability.

In 2011 we also devoted a great deal of attention to effective use of our voting right. In many markets, including the Netherlands, voting by acclamation instead of counting all votes is not uncommon. In our opinion this violates one of the key principles of corporate governance, namely that each share confers a right to one vote (‘one share – one vote’). Last year we also continued our engagement projects in Asia, partly in collaboration with the Asian Corporate Governance Association (ACGA). In thirteen Asian financial markets we called for all votes to be counted and for a requirement to be introduced to publish the result as soon as possible. Following the previous results achieved in previous years in this region, good progress was made in this area again in 2011. First, at the end of March, changes were made to the ‘Taiwanese Corporate Governance Best Practice Principles’ and listed companies are now being encouraged to count all the votes cast (‘voting by poll’) and to publish the results. Although these principles are not binding, they do send a strong signal. Finally, once again this year, this recommendation was followed by more Taiwanese companies with which we had engaged in previous years and whose AGMs we had attended, including China Steel and Chunghwa Telecom.

Successes can also be reported from Singapore, where the local stock market, the Singapore Exchange, has recommended changes to the stock exchange regulations to make it mandatory to count all votes cast and publish the results. If these proposals are adopted, Singapore can be added to the list of markets in which ‘voting by poll’ is compulsory, such as Hong Kong.

In the United States, a ‘Fifth Analyst Call’ was held for the first time in 2011. This provided an opportunity for investors to direct questions to the company prior to the shareholders’ meeting on items which had been placed on the agenda and would have to be put to a vote. This contributes to the principle of ‘informed voting’ which PGGM has applied in its voting policy for many years. An initial exploratory step was also taken in 2011 with a view to developing a corporate governance code for the United States.

> ‘First ‘Fifth Analyst Call’ held in the United States’ p. 58
> ‘PGGM organises round table on US Corporate Governance Code’ p. 58
5.5 Human rights

On the human rights theme PGGM devoted particular attention to the following main points in 2011:
- companies involved in human rights violations (including labour rights);
- companies operating in high-risk areas, for example as a result of a conflict or the presence of a repressive regime.

For engagement in the field of human rights, we often work closely with other parties. In 2011, we collaborated on a project with the UN Global Compact concerning the implementation of guidelines for companies operating in conflict areas. PGGM had been closely involved in establishing these guidelines, which assist companies in practising responsible enterprise in risk areas, in 2010. We initiated an engagement project in 2011 in collaboration with other institutional investors to promote the implementation of these guidelines. A key objective of this project is not only to raise awareness of these guidelines but also to share best practice. We are focusing specifically on companies in the mining and oil and gas sectors operating in the Democratic Republic of Congo. In order to support our dialogue, we have examined where these companies’ existing policy and activities fall short of the guidelines and where additional attention is therefore required.

Another project on which we have been working closely for some time with various other institutional investors affiliated with the UN PRI is the Sudan Engagement Group (SEG). On 9 July 2011, South Sudan officially became independent from Sudan. However, many challenges and risks remain, because neither North Sudan nor South Sudan is yet a stable country. In advance of this formal separation, the SEG called on companies operating in Sudan to play a constructive role in a peaceful separation process for South Sudan. An important part of this was support for new agreements between the two countries, for example on the sharing of oil wealth, the peaceful definition of boundaries and the sustainable use of oil wells. Unfortunately, the separation has reignited the conflict. We have therefore raised additional questions with companies to find out how they can guarantee the safety of their employees and ensure that they do not become involved in human rights violations.

We also continued our dialogue with companies operating in another conflict area, namely the occupied territories of Palestine.

> ‘Dialogue on activities in occupied territories of Palestine’ p. 59
The situation in Nigeria has been a recurrent theme in our dialogue with Shell. In 2010 we called on Shell to be more open about the oil leaks and subsequent clean-up in Nigeria. We learned last year that Shell had taken a major step forward in this regard. Since the beginning of 2011, Shell Nigeria’s website has included a database providing up-to-date information on any new oil leaks from Shell facilities.

> Openness at Shell. p. 61

Another company with which we have been in dialogue for a considerable time is Wal-Mart of the United States. An important subject of discussion is compliance with national labour legislation. This was also a subject of discussion with Ahold.

> ‘Labour rights in the United States’ p. 60

Finally, this year we were in dialogue with the South Korean company Samsung Electronics, together with APG and a number of other international investors. In 2010, the electronics group was accused of causing the serious illness of at least 23 former employees as a result of their work. Nine existing and former employees have since died. We wanted a fully transparent and independent inquiry to be held. This inquiry failed to establish a link between cases of leukaemia and working conditions at Samsung Electronics. Samsung informed PGGM that it had expanded its occupational health and safety activities and would provide financial support for former employees diagnosed with cancer.

As a follow-up to this dialogue and the complaints concerning conditions at Foxconn – a supplier to Apple, among others – we took part in a joint dialogue with companies in the electronics sector based on the PRI. The aim was to raise the subject of poor working conditions in the sector. In the first place we directed questions to Foxconn’s customers, i.e. the major names in consumer electronics, such as Apple, Ericsson, HP and Sony, about their supplier policy and the supervision of compliance with this policy, for example by means of independent testing. In the year ahead, we shall also talk to listed manufacturing companies as part of this project.

5.6 Climate change

We devoted attention to the following key points in the climate change area this year:

- strategic opportunities and threats arising from climate change;
- transparency on greenhouse gas emissions.

The negative consequences of climate change pose a threat to businesses. However, by taking the right measures, opportunities can be created in many sectors. Not only can changing legislation give an impetus to progressive companies, but efficiency improvements are rising steadily on the agenda of many companies and offer commercial opportunities.

A specific subject to which we devoted attention last year was shale gas. This is natural gas that is difficult to extract. Its extraction has greater environmental impacts than the extraction of conventional gas, because large volumes of water and chemicals are used. It gives rise to fears of pollution of drinking water, transport in the region increases sharply, water extraction can lead to water scarcity and the method produces polluted waste water. These concerns are exacerbated by the lack of clarity about the composition of the chemicals used and gases that may be released.

No shale gas is currently extracted in the Netherlands, although four licences have been issued for shale gas exploration. In the United States, shale gas already accounts for around 30% of total gas extraction. PGGM invests on behalf of its clients in companies involved in shale gas extraction.

During the final quarter of 2011, we visited shale gas drilling sites in the United States and held discussions with companies exploiting the gas fields. We also spoke to NGOs, legislators and regulators. The visits to and discussions with the companies, NGOs and regulators led to a number of recommendations, which form the basis of our engagement with the companies operating in shale gas. PGGM acknowledges the risks and impacts of shale gas drilling. We are nevertheless convinced that they can be controlled and reduced. As the product – natural gas – is a relatively clean fuel, PGGM sees no reason to reconsider investments in this sector. We do nevertheless feel it is necessary to continue the dialogue with companies.
We also made our voice heard in climate negotiations in Durban and Australia. PGGM is a co-developer and signatory of the Global Investor Statement on Climate Change. In this statement investors set out the measures they consider necessary for the financial sector to make a substantial contribution to solving the impending climate problem. In 2011 we went further than just signing the Global Investor Statement. We travelled to Durban to bring the statement and our recommendations on good climate policy to the attention of Christiana Figueres (Head of the United Nations Framework Convention on Climate Change UNFCCC). In a meeting with Ms Figueres we were able to explain what international policy could help us invest more in climate solutions.

We also visited Australia’s Prime Minister and Environment Minister last year to discuss far-reaching climate legislation.

> ‘Climate change in Australia’ p. 61

### 5.7 Health

Within the health theme, PGGM focused on the pharmaceutical industry and the food industry, among others. As in 2010, one of the subjects addressed was access to medicines (AtM). In Japan, for example, PGGM held meetings with all the major pharmaceutical companies to discuss their policy with regard to AtM. In addition to medicines, access to good healthcare is also fundamental. Employers can often meet this need by offering employees a relatively simple medical expenses insurance. The employer also benefits, because this can help reduce sickness absence. On this basis, PGGM took the first preparatory steps in a project to improve access to healthcare for employees in a number of companies.

PGGM also took part in discussions with companies in the food industry on subjects such as obesity and trans fatty acids. PGGM decided to collaborate on a new initiative to survey the relevant risks and solutions in the food industry – the Access to Nutrition Index (ATNI). The Access to Nutrition Index is an initiative of the Global Alliance for Improved Nutrition (GAIN). The aim of the ATNI is to urge food producers to market more nutritious products and make these more accessible (in terms of price) to a larger number of consumers. The ATNI will assess the 25 largest food and beverage producers on the basis of their products. In this way, manufacturers will be made aware of their responsibilities for issues relating to malnutrition and overnutrition. The 10 largest food and beverage producers in India, Mexico and South Africa will also be assessed. These three countries were chosen because they have to contend both with excessive malnutrition and growing problems of obesity.

On 28 February 2011 PGGM organised a meeting for Dutch investors to draw attention to the ATNI. By organising this meeting and being involved in this initiative, PGGM is underlining the importance it attaches to solving this issue.

As well as focusing attention on sector-wide themes such as Access to Medicine and Access to Nutrition, PGGM also conducted engagement projects in 2011 addressing issues specific to the companies concerned. For example, PGGM held discussions with the pharmaceutical company Zimmer on the continuation of external audits.

> ‘External audit at Zimmer’ p. 61

### 5.8 Outlook

We shall intensify the engagement programme in 2012. We wish to reach more companies in a larger number of risky sectors. We aim to discuss not only the risks that ESG factors can pose (for PGGM’s or our customers’ reputation and/or for the investment itself), but increasingly also the opportunities which can arise from making processes and products sustainable. Figure 5.1 illustrates this development path from risk control to the creation of opportunities. PGGM aims to be a constructive partner for the companies in which it invests and to help them to create financial and shared social value.
Figure 5.1 PGGM Sustainability Stairway

<table>
<thead>
<tr>
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<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tr>
<td>Number of companies engaged with directly**</td>
<td>48</td>
<td>72</td>
<td>154</td>
<td>≥ 150</td>
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<tr>
<td>Number of companies engaged with indirectly (through F&amp;C)**</td>
<td>495</td>
<td>574</td>
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<tr>
<td>Value of companies engaged with as % of managed equity portfolio as at 01-01-2011</td>
<td>48%</td>
<td>51%</td>
<td>49%</td>
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</tbody>
</table>
Examples of engagement

Major ESG risks in the mining sector
PGGM sees the mining sector as one of the sectors with the largest ESG risks. Not only does the extraction of raw materials often entail negative environmental impacts, but working conditions are also particularly risky. Moreover, mining projects can have a major impact on local communities, for example due to the lack of consultation, forced resettlement and labour migration, which can give rise to local tensions, disease and prostitution. Particular risk attaches to mining projects in unstable countries, where there is a lack of strong institutional frameworks and corruption is rife.

We expect companies in this sector to take appropriate measures to control all these risks as effectively as possible. Through its engagement programme, PGGM urges mining companies not only to meet minimum requirements, such as in the field of safety, but also to implement best practices for this sector, for example with regard to water consumption or contact with local communities. We do so partly on the basis of the guidelines of the International Council on Mining and Metals (ICMM) and the guidelines of the UN Human Rights Council as drawn up by Professor Ruggie.

Barrick Gold
In November we talked to a number of Canadian mining companies about problems in their international operations. Various reports were published in 2011 linked to Barrick Gold concerning serious incidents, including rape, around their mines in Tanzania and Papua New Guinea. The company’s security personnel were alleged to have been involved. We urged Barrick Gold to take extensive measures to prevent further human rights violations by their guards. Police squads responsible for protecting these mines were apparently also using excessive violence. In Tanzania, seven people were killed as a result of police violence at a demonstration in the vicinity of the mine. We expressly requested Barrick Gold to ensure that police violence was investigated by the judicial authorities and that appropriate measures were taken. We will monitor follow-up actions by Barrick Gold in 2012 and continue to call for improvements and steps to prevent incidents.

Goldcorp
The Canadian company Goldcorp owns the controversial Marlin mine in Guatemala. Problems relating to environmental pollution, illegal sales of common land and inadequate consultation with indigenous communities concerning exploitation of their land led to severe social unrest around the mine. At the request of international investors, an investigation was conducted into the problems around the mine. We held discussions with Goldcorp on the progress made in implementing the recommendations from this investigation.

Engagement for sustainable palm oil
Palm oil is a natural product that is used in many foods and other products. Demand for palm oil has risen strongly in the past few years. PGGM wants to persuade the main palm oil producers to switch to producing sustainable palm oil. Sustainable palm oil is palm oil which can be produced without clearing any virgin forest and does not threaten the way of life of indigenous communities. A major problem in the production of palm oil is that in order to create plantations peatlands are drained and forests are burned down. This releases large volumes of greenhouse gases. The Roundtable on Sustainable Palm Oil (RSPO) is endeavouring to tackle these emissions and the other problems in the production of palm oil.
PGGM has joined the RSPO to promote the preservation of unique ecosystems, with their wide biodiversity and their ability to store large volumes of carbon (CO₂). PGGM is also maintaining a direct dialogue with companies on the production of sustainable palm oil.

At the top of the agenda for engagement with the production companies is transparency: where precisely are the concessions relative to existing rain forest and peatlands PGGM wants to see reporting on the carbon footprint and the forest footprint of palm oil production. Another important requirement is disclosure of the number of industrial accidents and conflicts with the surrounding communities. PGGM is also urging companies to invest in raising the productivity of existing plantations to meet demand growth, rather than increasing the land area used.

PGGM has joined the PRI signatories’ Sustainable Palm Oil Investor Working Group, which is mainly aimed at the largest buyers of palm oil, i.e. food companies and supermarket chains. Through this working group, we are focusing initially on food companies in Western countries which must make good their commitments to buy sustainable palm oil. Thereafter, attention will shift to the food producers and supermarkets in the major palm oil markets, China and India.

The problem we are encountering is that demand for a sustainable palm oil is currently coming mainly from Europe. In other markets there is very little willingness to pay a premium – albeit a small one – for sustainably produced palm oil. Producers and buyers have each other firmly in their grasp.

Producers are waiting for buyers who are prepared to pay a little more, while buyers argue that producers and processors should stump up some of the costs of sustainability in the chain (palm oil prices have risen sharply in the past two years). PGGM is trying to break this stalemate by entering into a dialogue both with producers and with purchasers of palm oil.
Water scarcity, a growing risk for investors
The sector analyses revealed that water scarcity was one of the growing ESG risks. PGGM launched a project on water scarcity with Norges Bank Investment Management (NBIM). The aim of this project is to encourage companies operating in China and India to report on and reduce water risks.

Various sectors are heavily dependent on water as a production resource, for cooling, waste removal and/or transportation. Population growth, rising incomes and consumption, as well as industrialisation, are leading to a scarcity of clean water, particularly in emerging economies. Climate change is exacerbating the problem with more frequent and longer droughts (as well as worse floods).

In addition to the agriculture sector, the electricity and mining sectors are heavily dependent on a continuous supply of water, for the digging and cleaning of coal and for the cooling of power plants. The rapid rise in demand for energy – and hence water – in both China and India means that water risks are becoming increasingly significant for investors.

What is lacking is information on the exposure of mines and power plants to water risks. Data are required on the efficiency of water use or reuse, but also on water consumption by others in the same river basin or the same groundwater store. An important first step for companies is therefore to monitor their water dependency (use) and assess their water security.

The extremely successful Carbon Disclosure Project (CDP), in which PGGM is participating, has taken the initiative of urging companies to release data on water consumption, water security and water management, as they have previously for greenhouse gas emissions. An important aim of the engagement project is to encourage a number of leading companies in water-dependent sectors to report water risks through the CDP’s Water Disclosure Project, so that investors gain greater insight into the strategies required to deal with these risks and seize any opportunities. PGGM has also been participating in this water initiative since 2011.

Question marks over the role of the telecommunications sector in the Egyptian revolution
Modern technology and social media played a major role in the recent revolutions in the Middle East. Twitter and Facebook were used to call on people to join protests and images were sent round the world on YouTube, illustrating for example the violence used to quell the social unrest.

In January 2011, the Egyptian authorities therefore blocked the Twitter and Facebook services. Shortly afterwards, the Internet and mobile phone systems were locked down for several days. The Egyptian secret services also used the mobile telephony network to spread propaganda by means of text messages.

The role played by international telecommunications companies in these events raised many questions. Partly on behalf of PGGM and its clients, F&C questioned various companies, asking them about the decision-making in response to requests by the Egyptian authorities, their position and policy on freedom of speech, privacy and protection of personal data. The events had taken many companies by surprise, so the discussions also addressed ways of ensuring better and more co-ordinated decision-making in the future. Licensing conditions and financial risks were also discussed.

Finally, calls were made for the companies to join the Global Network Initiative. This is a collaborative grouping of companies, investors (including F&C) and NGOs aimed at producing guidelines on freedom of speech and protection of privacy in the ICT sector.

Active participation in Eumedion
Co-operation with other institutional investors can be effective and efficient. In the Netherlands, we therefore take part in Eumedion, an institutional investor platform that promotes its participants’ interests in the field of corporate governance and sustainability. PGGM is represented on the Eumedion board and participates actively in committees and working groups. PGGM has played an active role in the examples below and supported Eumedion in drawing up responses and policy.

Eumedion once again took part in a large number of Dutch and European corporate governance-related consultations (requests for detailed responses) in 2011. It issued comments and advice on the European Commission’s Green Paper for listed companies. As a follow-up to a specific Green Paper for the financial sector in 2010, the European Commission issued an extensive Green Paper for listed companies in 2011 (Green Paper on the EU corporate governance framework). This Green paper, which surveys the issues and provides recommendations, is important because it can help improve and harmonise corporate governance in European member states.
Eumedion is a strong advocate of corporate governance codes based on a ‘comply or explain’ principle. These codes provide the necessary flexibility while at the same time laying down a general standard. In its response to the Green Paper, Eumedion therefore drew the European Commission’s attention to the advantages of the existing European corporate governance framework and the national corporate governance codes and legislation. This combination enabled them to strike a good balance between strict legislation and a more flexible application of codes to promote good corporate governance. Eumedion therefore recommends that the European commission adopt a restrained approach with regard to further legally enshrined changes in corporate governance.

Eumedion published a set of principles for responsible remuneration policy (remuneration in the broad sense) in 2006. Recommendations for basing variable pay on ESG targets were added in 2011. PGGM participated actively in the working group which drew up these principles and recommendations and believes in embedding ESG principles in the long-term strategy of listed investee companies. This includes responsibilities and challenging targets which are therefore also reflected in the variable remuneration components of executive directors.

If the company opts for variable remuneration elements based partly on ESG targets, Eumedion has the following recommendations: set targets that are clear, readily quantifiable, time-related and challenging; formulate targets that are directly related to the strategy and day-to-day performance and make sure they have a long-term focus.

Finally, ESG targets, just like other financial and non-financial variable remuneration targets, must be measurable and transparent and based on the performance of the respective executives.

First ‘Fifth Analyst Call’ held in the United States

The US company Occidental Petroleum held the first ‘Fifth Analyst Call’ in 2011. PGGM co-developed the ‘Fifth Analyst Call’ concept and played an active part in bringing the initiative to the attention of investors and the US companies in which they invest. The name ‘Fifth Analyst Call’ refers to the regular analysts’ meetings which companies hold for investors four times a year and in which they provide written information and an accompanying commentary on their figures and earnings performance. The idea is that the company will hold a fifth annual meeting for investors with an active voting policy who wish to receive an explanation of the meeting documents in the form of a proxy statement prior to the AGM. The intention of such a meeting is that the company will answer questions from investors so that they can cast informed votes. This type of consultation prior to the AGM has been the usual practice in the Netherlands, as well as in the United Kingdom and Australia, for many years.

In the run-up to the shareholder season in the spring of 2011, PGGM and other investors therefore began writing to a specific group of companies requesting them to organise such a meeting. Occidental Petroleum was the first which actually did so. The company therefore truly earned the title of ‘pioneer’ when, despite the assumed objections and risks, it held a ‘Fifth Analyst Call’ with the participation of over 50 institutional investors, including PGGM. This first meeting led to a lively debate on the pros and cons in corporate governance circles in the United States. We shall continue to monitor the further rollout of this concept in 2012, with the aim of improving the dialogue between the company and investors.

PGGM organises round table on ‘US Corporate Governance Code’

For a number of years PGGM has been actively investigating the possibility of developing a corporate governance code for the United States. In 2009, it expressed its desire to see a ‘US Corporate Governance Code’ in a letter to President Obama. PGGM has joined forces with strong partners, including TIAA-Cref, Deloitte, Microsoft and Prudential, with a view to rolling out this initiative in the United States. An initial academic exploration of the possibilities of such a code being developed for the United States was launched in 2011 jointly with the highly respected ‘Millstein Center for Corporate Governance and Performance’ at Yale School of Management.
Corporate governance codes with principles and best practices have been introduced in many European countries. These codes, with an associated ‘comply or explain’ regime, have been produced following public consultation with various parties and are often enshrined in national legislation and regulations. The various codes are thus a tool that investors can use in their dialogue with companies in which they invest. Such corporate governance codes are also important for the companies. Their flexibility means that any deviations from best practices are likely to be accepted by investors, provided the reasons are properly explained.

The consensus in Europe is that corporate governance codes offer major advantages and contribute to a meaningful dialogue between companies and shareholders. This reinforces PGGM’s view that it is wise to investigate the possibilities for a code in the United States. PGGM believes the introduction of a code would be a positive move particularly in the United States, where shareholders have limited rights to enforce improvements in the field of corporate governance.

We organised a round table on this subject in October. During this meeting many experts from various European countries spoke to representatives of key parties in the United States about the operation of the various codes in Europe. It was an open and honest debate among a range of participants, including shareholders, companies, regulators and service providers. The meeting produced ideas on how to garner support and develop the concept in the United States.

The Millstein Center also issued a call for academic submissions on the subject. It is now assessing the content of these submissions. The best submissions will be discussed at Yale School of Management’s annual conference in June 2012, in which PGGM will also participate. A second round table will be held in the United States in March 2012. At this meeting, we will hold a brainstorming session with relevant market participants on the question of whether a corporate governance code can be established in the United States, and if so how.

**Dialogue on activities in occupied territories of Palestine**

We are conducting various engagement projects aimed at companies operating in the occupied territories of Palestine. We have spoken to both international and Israeli companies.

A number of international companies, such as Veolia, Alstom and Dexia, have now stated that they wish to dispose of their interests in the businesses concerned. This will not happen overnight, for example because consent must first be obtained from the authorities. We shall therefore continue to monitor progress on these developments closely.

We also completed the engagement process with the US company Caterpillar, which had drawn criticism because Caterpillar bulldozers were used to demolish Palestinian homes.

We learned from our discussions that the company did not supply the products directly to the Israeli government, but to the US Foreign Military Sales Program (a US Government programme for development aid). The company also stated that no specifically adapted products had been supplied and that it was not able to monitor the use of its products after delivery. A number of US courts at various levels have since ruled that Caterpillar cannot be held responsible for the use of its products for illegal purposes after delivery. We therefore see no reason to pursue this dialogue, although we will continue to monitor the company with regard to improvements in its human rights policy worldwide.

Although we were enlightened by the dialogue with two Israeli companies, Bank Hapoalim and Israel Discount Bank, the engagement processes with other Israeli companies were in some cases very laborious. Elbit Systems, for example, repeatedly failed to answer our specific questions on its activities in relation to the supply of surveillance equipment for the separation wall. We therefore decided to add this company to our exclusions list at the end of December.

We are also seeking alternative ways to continue the dialogue with other Israeli companies in the forthcoming year, particularly with a number of banks allegedly involved in financing settlements in occupied territories.
Labour rights in the United States

**Walmart**
PGGM has been in dialogue with Walmart for a number of years on non-compliance or poor compliance with national labour legislation. In October 2011, we attended the annual meeting for financial analysts at which the world’s largest retailer set out its strategy for the years ahead. To our amazement, this new strategy did not devote attention to the company’s employees and the issues affecting them. After this annual meeting we spoke to a group of very dissatisfied Walmart employees who were members of the OUR Walmart organisation. They voiced their dissatisfaction with their working conditions, pay and employment terms and the position of trade unions.

In a subsequent closed meeting with Walmart managers, we and other large international investors called on the company to acknowledge the strategic importance of employees for the success of the company and to act accordingly by treating them with respect. We asked the company to bring its internal employment policy into line with internationally accepted labour rights and the expectations the company has of its own suppliers. We shall continue our dialogue with the company in 2012.

**Ahold**
A similar issue arose around the AGM of Ahold, which generates a large proportion of its revenues in the United States. We received signals from trade union circles that Ahold was allegedly restricting trade union activities at one of its US subsidiaries. This contravenes not only international labour rights as formulated by the International Labour Organization (ILO) but also the company’s own policy. At the AGM we joined with other institutional investors in expressing our concerns on this matter.

During the meeting, Ahold stated that employees were free to join a trade union. In further discussions with the company we raised questions on matters such as supervision from Amsterdam of the local application of Ahold’s global policy. Ahold stated that the head office was now supervising communication with US employees on trade union matters and told us that this had now been brought more closely into line with the company’s worldwide policy. The company also stated that it enjoyed good co-operation with the trade unions in other Ahold chains in the United States.

**Climate change in Australia**
In June we travelled to Australia, where we spoke to a large number of companies (including in the mining, telecommunications and financial sectors) and had discussions with the environment minister on climate change. We informed the minister that we supported a market system of emissions trading.
We expressed our view that a climate tax in Australia was a good first step towards a clear climate policy, but that we ultimately set greater store by a market system of emissions trading. The minister was very interested in our experiences in Europe and the US and stated that our message was timely and very welcome. He said he was encountering strong opposition to his plans for a climate tax from parliament and from certain companies/sectors and that our message would help him secure majority support for his plans in parliament.

On the same afternoon we were guests of the prime minister in the public galleries for Question Time in parliament. The environment minister quoted many parts of our statement during Question Time, generating a great deal of media attention. The plans for a climate tax in Australia were passed into law at the beginning of July and are due to come into force on 1 July 2012. On that day a fixed CO₂ price will be introduced for a period of three years. After that period an emissions trading system will be introduced in which the CO₂ price will be determined by market forces. Australia is playing an important role in the international negotiations on worldwide climate policy. For that reason too we welcome the steps Australia has taken in its own market.

**Openness at Shell**

In August 2011, UNEP (the United Nations Environment Programme), issued its final report on the investigation into environmental pollution in Ogoniland in Nigeria. This area in the Niger Delta is known to be severely affected by oil pollution caused not only by the oil industry, which has been operating there since 1950, but also by illegal activities. Shell operated in the area for a long time, but withdrew in 1993.

The UNEP’s final report gave a detailed description of the damage caused to the environment and contained a number of recommendations for the industry and the Nigerian government. Some observations in the report focused directly on the activities of Shell Petroleum Development Corporation (SPDC), the consortium in which Shell is a minority shareholder but carries out the day-to-day management. The report gave PGGM cause for concern, and since its publication we have held a series of discussions with Shell. The report undermines the company’s credibility and reliability. Shell stated that it accepted the conclusions but was carrying out a further internal investigation to verify the presented facts against its own data. We urged Shell to issue a speedy official response to the report, setting out the measures which it considered necessary and would take in order to operate in accordance with the highest standards.

Our discussions with Shell were not limited to Nigeria. Subjects such as Syria and the oil spill in the North Sea were also discussed with the company. Shell provided an explanation of its activities in Syria and explained why withdrawal from the country would not contribute to a resolution of the conflict. Shell also stated that a European oil boycott would be respected. The company has since announced that it will discontinue its own operations in the country. It was requested to be more open about its activities in Syria, to demonstrate that it has no involvement in the violent acts by the regime.

On the subject of the North Sea oil spill, the company was asked to rapidly disclose the findings of the internal investigation into the cause of the spill and measures to prevent such spills in future.

**External audit at Zimmer**

In October 2011, PGGM and a US investor (the UAW Retiree Medical Benefits Trust) held discussions with the US company Zimmer Holdings, whose products include orthopaedic implants. This followed criticism of Zimmer for making inappropriate payments to doctors for clinical trials. Charges on this matter had been the subject of a settlement several years earlier under which Zimmer (together with many other companies in the sector) was required to pay a settlement amount and adhere for a number of years to a Corporate Integrity Agreement (CIA) imposing increased supervision on the company. One of the consequences of the CIA was that the company’s payments to doctors were audited by external auditors. As this supervision period was due to expire shortly, PGGM held discussions with the company in which we asked them to continue to have the payments audited by external auditors. A specific check would be made of whether the payments were in line with the fair market value for such services. The auditing of these payments would limit the risk of further deficiencies.

After intensive consultations, Zimmer stated that it would comply with PGGM’s wishes and continue the annual independent audit of payments to doctors.
In order to recover damages and enforce good corporate behaviour, PGGM institutes legal proceedings on behalf of our clients if necessary. We do that as a shareholder in listed companies both in the Netherlands and abroad. Our preference is to work with other investors with whom we share common interests.

6.1 Objectives of conducting legal proceedings

The main objectives of conducting legal proceedings are:
- obtaining damages;
- creating value in the long term;
- continuity of the company’s activities;
- achieving good corporate governance and good corporate behaviour.

PGGM systematically monitors new and ongoing legal proceedings throughout the world. Our systems provide the necessary information in good time to enable us to decide whether to demand an active role on behalf of our clients. There must be clearly demonstrable grounds for initiating legal proceedings. These may involve cases in which a company has committed fraud as a result of which shareholders have suffered losses.

The United States has the system of class actions, in which it is relatively easy to obtain damages for the entire group (‘class’) of misled investors. Class action is the American name for a lawsuit conducted by a class sharing a common interest. For that reason proceedings take place relatively frequently in the United States. A major impediment to the use of class actions arose, however, in June 2010 due to a ruling by the Supreme Court, the highest court in the United States, in the Morrison vs National Australian Bank case. Once again in 2011 we sought to address the negative consequences of this ruling with the relevant authorities.

> Negative consequences for investors after Supreme Court ruling in NAB/Morrison case. p. 65

6.2 Active proceedings

Legal proceedings can be brought in various ways. The main forms are direct action, in other words bringing one’s own legal proceedings against a company, or a form of collective action, such as class actions in the United States. These can also include proceedings against executive and supervisory directors (members of supervisory boards/non-executives) personally, or third parties involved (auditors, advisers, etc.). Proceedings often continue for many years, and therefore require patience. The cases in which PGGM was actively involved in 2011 included proceedings against Bank of America and Shell.

> Bank of America case advances steadily. p. 65
> Settlement of Shell case. p. 66

6.3 Passive proceedings

When a settlement is reached in a class action, investors who have suffered losses must register with the claims administrator, who is responsible for distributing the settlement amount. Investors who have played no active role in the proceedings are also entitled to damages, because they automatically form part of the class. We describe our involvement in this type of class action as more passive, in contrast to our active role in the proceedings against Bank of America and Shell. It is true that we take part (automatically) in the legal proceedings, but our role is limited to submitting a form on which we claim damages on behalf of our clients.

> Negative consequences for investors after Supreme Court ruling in NAB/Morrison case. p. 65
The proceeds of the (passive) class actions over the last five years are shown in the KPI table. They are allocated to the year in which the proceeds of the respective class action were actually received. That is usually not the year in which the class action was brought or settled. The proceeds of class actions vary from year to year. The fines imposed on companies by the SEC are added to the proceeds. The proceeds of these fines are shared out pro rata among the shareholders concerned. In 2011 that applied in the Bank of America case, in which the SEC fined the company USD 120 million for misleading its investors.

6.4 Outlook

At the beginning of 2012, the judge in the Bank of America class action determined the size of the class by a process known as class certification, bringing a successful end to another phase of the proceedings. The substantive proceedings will be pursued during the forthcoming year, partly on the basis of the documents and witness examinations and expert statements.

Again in 2012 PGGM will systematically monitor new and ongoing class actions in the United States and legal proceedings in other parts of the world. If necessary, we will play an active role and initiate our own proceedings if that is in the interests of our clients.

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<th>Legal proceedings on share ownership</th>
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* The number of legal proceedings and the resulting proceeds do not constitute targets but are a consequence of the implementation of our policy.
Examples of legal proceedings on share ownership

Negative consequences for investors after Supreme Court ruling in NAB/Morrison case
On 24 June 2010 the Supreme Court of the United States ruled that class actions must be restricted. That particularly affected foreign investors wishing to bring cases against a foreign company listed outside the United States. This ruling followed the Morrison vs National Australian Bank (NAB/Morrison) case. In 2011 it became clear that this ruling by the highest court in the United States would indeed have very far-reaching consequences for investors in general, and for non-US investors in particular. Lower courts have in many cases denied foreign investors access to the US system because they were not resident or did not have their registered office in the United States, and/or because the shares in the company on which they suffered losses had not been acquired in a US exchange. The fear of a major curtailment of the right of foreign investors to recover damages in the United States was thus unfortunately borne out.

PGGM, together with other investors from Canada, Australia and Europe, referred the matter to the SEC (Securities Exchange Commission) in 2011.

In July 2011, PGGM visited all the SEC Commissioners to explain our position and requested the SEC to address the negative consequences for investors, as the US Congress has asked the SEC to begin an investigation into the consequences of the NAEP/Morrison ruling and to report on it to Congress. Following our visit we sent further information to the SEC which could be of use in the investigation. The report on the SEC’s investigation to the US Congress is expected in the first half of 2012.

Bank of America case advances steadily
In 2009, PGGM was appointed as lead plaintiff, jointly with pension funds of the State of Ohio, Texas Teachers and AP4 of Sweden, on behalf of its largest client. In this capacity we are representing the class of misled Bank of America shareholders. We spoke to Bank of America about the enormous loss suffered by investors as a result of the fall in the Bank of America share price due to the acquisition of Merrill Lynch in the fourth quarter of 2008. This loss was due in part to revelations about the actual financial performance of Merrill Lynch. We also wanted to see a structural improvement in the corporate governance structure in the company.

On 27 August 2010, it was ruled that the vast majority of our claims could continue. Although we were pleased with this ruling, we nevertheless requested the court for leave to provide further argumentation in respect of the part of a claim which was not admitted. This request was granted and led to the filing of a ‘Second Amended Complaint’.

On 29 July 2011, the court then issued a judgement on this ‘Second Amended Complaint’. The complaint includes a clarification of the legal basis of our claims against Bank of America and a number of its individual directors. The court’s judgement has reinstated one of the legal bases which had been rejected in the previous ruling in 2010.

After the court’s ruling in the summer of 2011, a schedule was established for further proceedings to complete the class certification phase. This defines the precise size of the class with regard to the period and the type of securities (equities, bonds etc.). In that context, all lead plaintiffs, including PGGM, acting in this case for one of our clients, are subject to a deposition, which is a witness statement under oath. PGGM was questioned among other things on the grounds for bringing this case and its desire to act as lead plaintiff, as well as on various substantive aspects of the case.

3. We have reported on the progress of this case since 2009 and have provided details of recent developments here. For more background information see also our 2010 annual report.
The case is proceeding well. The bulk of our claims have been upheld and can be pursued further in the year ahead.

**Settlement of the Shell case**

The Shell case dates from 2004 and relates to a fall in the share price following the announcement of the size of the proven oil and gas reserves. The case was settled between Shell and the investors at the beginning of 2007, on the initiative of ABP and PGGM. The USD 352 million settlement applied explicitly to all investors who had purchased Shell shares outside the United States in the period from 8 April 1999 to 18 March 2004. A settlement of similar size was also reached with investors in the United States, and with the SEC. The SEC imposed a USD 120 million fine on Shell, from which the investors benefited. In order to reach a settlement covering all investors outside the United States, it was decided to have the settlement declared generally binding under the new Dutch Class Action (Financial Settlement) Act (Wet collectieve afwikkeling massaschade – WCAM), which has been in force since 2005. The Shell case thus became a test case for the scope of this new act, and whether it could offer an alternative to US class actions. The court in Amsterdam declared that the settlement was indeed binding in May 2009, after which a protracted and complex logistics process was begun in order to share the settlement amount, including accrued interest, of USD 389 million among the eligible investors.

The actual payout of 95% of the settlement amount took place in November 2011. A small additional payment is expected in the summer of 2012. This case has been long drawn out, but has proved successful alongside the damages which would not have been won without our involvement, partly due to the proven effectiveness of the WCAM route in the Netherlands.
7. Exclusions

PGGM aims to avoid making investments which are inappropriate for our clients or for ourselves. Therefore we do not invest in controversial weapons. We also exclude companies which violate human or labour rights if they are unwilling to speak to us about improvements or fail to demonstrate any improvements.

7.1 Exclusions policy and process

Some investments do not fit in with the identity of PGGM and its clients, and in order to avoid these we have drawn up an exclusions policy. This policy serves as our guideline for excluding companies and government bonds if they seriously violate human and/or labour rights. We also exclude companies which produce or trade in controversial weapons. The companies and government bonds we exclude are placed on an exclusions list, which we then distribute to all our investment teams and the external parties with which we do business, after which investments in these companies and government bonds are no longer permitted.

The Advisory Board Responsible Investment (ABRI) supports PGGM in the implementation of the exclusions policy. Decision-making can give rise to dilemmas, for example concerning the definition of substantial involvement in the production of controversial weapons. PGGM nevertheless steers its own course, even if that leads to a debate about our policy. Interpretation can lead to differences of opinion and we do not shy away from such differences. It necessary we will actively explain our position. Our aim is to apply the policy consistently.

7.2 Exclusions list

Controversial weapons

PGGM does not invest in controversial weapons. PGGM defines controversial weapons as nuclear, chemical and biological weapons, cluster bombs, anti-personnel land mines and munitions with depleted uranium.

These are weapons which actually or potentially cause disproportionate harm and/or are targeted at civilians. We therefore exclude companies that are involved in the production of and trading in controversial weapons.

Two companies were added to the exclusions list in 2011 due to involvement with controversial weapons: Huntington Ingalls Industries and Exelis, both of which are active in nuclear weapons and in both cases after demerging from an already excluded company.

Two companies, Saab and Magellan, were removed from the exclusions list in 2011 because their involvement in excluded weapons had ended. We were able to ascertain that these companies had permanently terminated their involvement with cluster weapons. These were the first results of the entry into force of the Convention on Cluster Munitions, which has now been signed by many countries. We expect to be able to remove further companies from the exclusions list in the year ahead with the aid of this convention.

Violations of human and/or labour rights in companies

If we find that a company is involved in violations of human and/or labour rights, we initially enter into discussions with those directly involved (for example with the company in which we invest) in order to bring about an improvement in the situation. That is because such violations concern the specific behaviour of a company and not a product, such as a controversial weapon. We therefore engage in an extensive dialogue with the company if we have found that the violation has indeed taken place recently or is still taking place.
We aim specifically at a change of behaviour. On the latter point we want to make sure that companies do not become involved with such violations again in the future. If no improvement is forthcoming, and if none can be expected, we exclude the company.

Last year we decided to exclude Elbit systems. This Israeli company supplied camera equipment to secure the Israeli West Bank Barrier, also known as the ‘Israeli wall’. In 2004, the General Assembly of the United Nations adopted a resolution stating that the barrier was illegal. We spoke to Elbit Systems on various occasions with regard to their involvement with the wall. However, the company repeatedly failed to respond to our specific questions on this involvement, after which it was decided at the end of December to sell all interests in the company. Cairn India was also added to the exclusions list in 2011 after Vedanta Resources, which we had previously excluded, acquired a majority shareholding in the company.

Government bonds
We also exclude government bonds of a number of countries. We base our decision on internationally recognised judgements and sanctions imposed by the UN Security Council and calls by the International Labour Organization (ILO) to reconsider economic relations. We may also act on the basis of our own judgement if countries breach the terms of our exclusions policy on a large scale without recent positive developments or the prospect of such developments in the near future. Our own judgement is particularly important if, for political reasons, the United Nations Security Council decides not to impose sanctions. A current example of this is the situation in Syria. We are therefore monitoring this situation closely and are obtaining advice from the ABRI.

At the end of 2011 there were eight countries on the list of excluded government bonds. In addition to Iran, Burma (Myanmar), North Korea, Sudan and Somalia, we placed Eritrea, Côte d’Ivoire and Libya on the list in 2011. Libya was added in response to the events in the Middle East. Libya’s exclusion took place, as specified in the exclusions policy, after the UN Security Council imposed sanctions in response to violence perpetrated by Colonel Gaddafi against opponents of his regime.

Application to unlisted investments
If investors wish to be consistent in applying the exclusions policy, they must not limit themselves to listed investments. PGGM has therefore applied the exclusions policy to illiquid investments for many years. The application of the exclusions policy to illiquid investments is not a common practice in the financial sector and therefore demands efforts both from ourselves and from the parties we work with. The incorporation of the exclusions policy as an investment restriction in contracts means that the manager who invests on our behalf is responsible for applying the exclusions policy. Specifying such contract terms is not always an easy matter.

Once again in 2011 we ascertained that the exclusions policy was being applied to 99% of the portfolio. That does not mean that the remaining 1% breaches the policy; it simply means that we cannot state with certainty that it complies with the policy. It was not possible to apply the policy in full to other exchange-traded funds in the beta portfolio in 2011. These are derivatives in which the underlying index may contain excluded companies. It is not yet possible to use tailor-made derivatives to apply the exclusions policy in these cases. That means that, as yet, it is practically impossible to apply the exclusions policy to 100% of the assets under management.

7.3 Outlook
In 2012, in consultation with the ABRI, we shall examine additional criteria for excluding countries for investments in government bonds based on our own judgement. The aim of having an additional framework of this kind is to ensure the utmost care and objectivity in our assessment. In collaboration with a number of other investors, we shall also enter into discussions with the (largely excluded) companies involved with cluster weapons. The aim of this project is to gain an insight into the consequences of the Convention on Cluster Munitions for their involvement with these weapons and tighter criteria for ending their exclusion.

<table>
<thead>
<tr>
<th>Key performance indicators relating to exclusions</th>
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<tbody>
<tr>
<td><strong>Exclusions</strong></td>
</tr>
<tr>
<td>Number of excluded companies</td>
</tr>
<tr>
<td>% of total assets under management covered by exclusions policy*</td>
</tr>
<tr>
<td>Excluded companies as proportion of FTSE All World benchmark</td>
</tr>
<tr>
<td>Number of excluded government bonds*</td>
</tr>
</tbody>
</table>

* The number of excluded companies or government bonds does not constitute a target, but is a consequence of the correct implementation of the policy.
Example of exclusions

Discussion on controversial weapons

The weapons industry is constantly evolving. PGGM strives to keep its exclusions policy up to date to ensure that it covers all weapons which actually or potentially cause disproportionate harm and/or are targeted at civilians. To this end, discussions took place in 2011 with the Advisory Board Responsible Investment (ABRI) on the possible addition of two types of weapon: unmanned combat aerial vehicles and white phosphorus.

In the case of unmanned combat aerial vehicles (UCAVs), also known as drones, it was concluded that it was not so much the weapon itself as its use that could be problematic. Indeed, with correct use the specific characteristics of this weapon could lead to fewer civilian casualties. There were nevertheless ethical questions surrounding the use of such weapons when operated remotely over long distances. The sense of distance created by the ‘computer game’ nature of these weapons increases the likelihood of undesirable effects and excessive use.

Because these questions relate to use, rather than to the intrinsic characteristics of the weapon itself, we have decided not to add it to the list of excluded weapons.

White phosphorus is used in warfare to create a smokescreen. It came into the news as a controversial weapon due to its inappropriate use, notably in inhabited areas, such as in the Gaza Strip by Israel. In certain specified cases the product fulfils a military need, and with correct use (in an uninhabited area) it causes no disproportionate harm. As a result, white phosphorus has similarly not been added to the list of excluded weapons.
For PGGM, 2011 was a productive year in many respects. There was greater ESG integration, we conducted more engagement projects, targeted ESG investments grew and we participated in productive co-operative relationships.

However, responsible investment is about more than meeting quantitative targets; its importance lies in the effect we can achieve through these activities. We therefore believe it is important to constantly assess our role and responsibilities and where – and how – we can be more effective. We therefore also have a listening role, for example for our clients and their participants and social organisations.

Once again in 2011 it was clear that achieving ESG results can sometimes be a difficult process in which dilemmas and obstacles are not uncommon. We voted last year at over 3,000 meetings, but our vote was hardly ever decisive. For example, we voted against the reappointment of the board of Tepco, due to failings in its safety supervision at the Fukushima nuclear plant, but our dissenting vote was in a minority. Another example was our vote against the reappointment of CEO Rupert Murdoch at News Corporation following the phone hacking scandal in the UK. Since Rupert Murdoch himself holds 40% of the shares, it is difficult for other shareholders to secure a majority.

Nor are our engagement efforts always successful. Often it is a long-drawn-out process. We also speak to companies on sensitive subjects, such as human rights and operations in conflict countries, where opinions are sometimes divided. Companies do not always respond to our calls for improvement. If it becomes clear that no changes can be expected, we discontinue our engagement and exclude the company.

Gaining insight into the effectiveness of responsible investment activities is complicated by the fact that measurement methods are still in their infancy. Many factors play a role in the choice of ESG improvement measures by companies and markets, so it is difficult to determine the extent to which PGGM has contributed.

We realise that, as yet, there are not always answers to the issues we encounter, but we aim to take important steps in the right direction by means of innovative projects.

In 2012, our attention will focus specifically on the following projects:

**Strategic asset allocation**
An important project in 2012 is an investigation into how PGGM can integrate ESG in the strategic asset allocation for its clients. ESG integration in the strategic asset allocation means that ESG factors are taken into account in the choice of investment categories and the allocation of our clients’ assets among the various investment categories.

**More Responsible Beta Equity Portfolio Investigation**
In 2011 we examined how PGGM could increase its contribution to a more sustainable world in the passively managed equity portfolio (index). The basic principle was that the portfolio’s risk/return profile would be retained, but we also included the contribution to a more sustainable world. A follow-up investigation with the instruments of a stricter exclusion policy, more intensive engagement and selection based on ESG performance will be developed further in 2012.

**Sustainable financial sector**
PGGM wants to share ideas with the Dutch financial sector and contribute to the solution of social issues raised by various interest groups concerning the role and practices of the financial sector. That is not only in the interests of the financial sector itself, but also in the interests of the society of which we all form part. PGGM will continue to work actively in this area in future and consult on it with its clients.
Measuring social added value
In collaboration with Erasmus University, PGGM developed a methodology last year to gain greater insight into the expected social added value of its targeted ESG investments. In 2012, PGGM will investigate how this scientific approach can be translated in practice into concrete indicators to measure and assess the social effects of targeted ESG investments.

Intensification of engagement
In 2012 we aim to reach more companies in a larger number of risky sectors. We want to discuss not only ESG risks, but increasingly also the opportunities which can arise from the introduction of sustainability in processes and products. PGGM aims to be a constructive partner for the companies in which it invests and to help them to create financial and social value.

Continued policy development
As well as implementing the current policy, an analysis of possible improvements to this policy will be carried out in 2012. Developments both within and outside PGGM will be taken into account in order to refine the policy.

We consider responsible investment to be important not only because our clients and the members of the PGGM co-operative organisation request it, but also because we believe that PGGM has a social responsibility as an institutional investor. PGGM believes that good returns and responsible investment are perfectly compatible. Responsible investment therefore fits with who we are.
Asian Corporate Governance Association (ACGA), www.acga-asia.org

ACGA is a non-profit organisation established in Hong Kong which works with investors, companies and regulators to implement effective corporate governance in Asia. ACGA was formed in 1999 on the basis of a conviction that corporate governance is of fundamental importance for the long-term operation of Asian economies and financial markets. ACGA carries out research, representation of interests and education. PGGM has been a member of ACGA since 2008.

Australian Council of Superannuation Investors (ACSI), www.acsi.org.au

The Australian Council of Superannuation Investors represents the interests of 41 superannuation funds (Australian pension funds), which collectively have over $300 billion of assets under management. The aim of ACSI is to increase the sustainable long-term value of pension monies. ACSI represents the collective rights and interests of its members by influencing companies, investors, governments and opinion leaders. It does so by using targeted research, evidence-based policy, communication and lobbying to identify possible ways to improve the application of ESG criteria. ACSI collaborates with other institutional investors to achieve shared objectives both in Australia and internationally. PGGM has been a member of ACSI since 2011.

Asia Pacific Real Estate Association (APREA), www.aprea.biz

Asia Pacific Real Estate Association (APREA) represents the (listed and private) real estate sector in the Asia-Pacific region. Its members are real estate companies, real estate funds, institutional investors, investment advisors, universities and consultants. APREA promotes investments by local and international investors in listed real estate companies in the Asia-Pacific region by providing better information for investors and promoting best practices and co-operation in the sector. APREA also represents the sector in consultations with governments and legislators. PGGM is represented on the Index Committee. PGGM also plays an advisory role in initiatives in the field of responsible investment.

Carbon Disclosure Project (CDP), www.cdproject.net

CDP is the largest association of institutional investors relating to the effects of climate change on world business. CDP collects relevant information on companies and distributes it to investors. To this end it sends annual requests to companies to take part in the reporting process. More than 3,700 companies responded favourably to such requests in 2011. PGGM has supported CDP since 2004.

Council of Institutional Investors (CII), www.cii.org

CII is a US organisation representing many institutional investors, mainly pension funds. The members of CII collectively manage more than $3,000 billion. The organisation represents the interests of its members and is active in the United States in the field of shareholder rights, corporate governance and other subjects of relevance to investors. Members of the organisation can take part in activities of relevance to them through the organisation's various committees. PGGM has been a member of CII since 2008.

Eumedion, www.eumedion.nl

Eumedion officially began its work as the successor to Stichting Corporate Governance Onderzoek voor Pensioenfondsen (SCGOP) on 1 January 2006. Eumedion represents the interests of all institutional investors and is an opinion former in the field of corporate governance. On the basis of the responsibilities of institutional investors established in the Netherlands, Eumedion's aim is to maintain and develop good corporate governance and promote acceptance of and compliance with corporate governance standards by listed companies and institutional investors. Eumedion focuses particularly on the Netherlands and Europe. At the end of 2011, Eumedion had 70 members, who collectively represented over €1,000 billion of invested assets. Eumedion's membership includes both small and large institutional investors. In addition to Dutch institutional investors, a number of foreign institutional investors are affiliated with Eumedion. PGGM was a cofounder of SCGOP and Eumedion and participates actively in all committees.
European Public Real Estate Association (EPRA), www.epra.com

EPRA represents the listed real estate sector in Europe. Its members are European real estate companies, institutional investors and consultants. EPRA promotes investment in European listed real estate companies by providing better information for investors and promoting best practices and co-operation in the sector. PGGM has been a member of EPRA since 2000 and is represented on the board, the Reporting & Accounting committee and the sustainability subcommittee.

The Institutional Limited Partners Association (ILPA), www.ilpa.org

ILPA is a network forum focused on improving communication, education and research in the private equity sector. In 2009 ILPA developed private equity principles which describe best practice in the field of governance, transparency and alignment of interests between limited partners and general partners. PGGM has been a member of ILPA since 2010.

Institutional Investors Group on Climate Change (IIGCC), www.iigcc.org

The IIGCC is a European platform for co-operation among institutional investors in the field of climate change. The IIGCC aims to foster a better understanding of the implications of climate change among its members and other institutional investors. Encouraging investors to act accordingly is another important activity. Finally, the IIGCC focuses on support for regulation and market solutions which both provide an effective answer to climate change and are consistent with long-term investment objectives. PGGM has been a member of the IIGCC since January 2007 and is a member of the steering group and the public policy group.

International Corporate Governance Network (ICGN), www.icgn.org

The staff in our Responsible Investment team are personal members of the ICGN (ICGN has no institutional members). The ICGN has four main objectives:
- Providing a network of and for investors for the exchange of views and information on international corporate governance subjects;
- Conducting research into corporate governance principles and practices;
- Developing and encouraging the adoption of corporate governance standards and guidelines;
- Promoting good corporate governance in general.

International Sustainability Alliance, www.internalsustainabilityalliance.org

The International Sustainability Alliance is a worldwide network of real estate organisations, developers, owners, lessees and investors who understand the financial stimulus of achieving a more sustainable built environment. ISA is working with BRE Trust to create the world’s largest comprehensive, confidential database of environmental performances in real estate. Members can then develop sustainable strategies for their real estate and link these to their financial performances. PGGM is an associate founding member of ISA.

UN Principles for Responsible Investment (UN PRI), www.unpri.org

PGGM was closely involved in the creation and development of the UN PRI. We were among the first group of signatories and have been sponsors since the principles were launched in April 2006. The PRI are a set of six principles which can be endorsed by asset managers and pension funds to demonstrate their commitment to responsible investment. The principles are intended to offer practical assistance on the incorporation of factors such as the environment, social conditions and corporate governance into investment practice and investment decisions. Over 994 institutions worldwide have now signed the PRI.

Else Bos, Chief Institutional Business and Deputy CEO for PGGM N.V., serves on the Board on behalf of Pensioenfonds Zorg en Welzijn. PGGM also participates in the Private Equity, Infrastructure, Inclusive Finance and Real Estate workstreams (which focus on implementing the principles in these asset classes). PGGM was also an active member of the Technical Committee for the new reporting framework and the Sudan Engagement Group in 2011. This group does not encourage companies to withdraw from Sudan but does call on companies to adopt a responsible approach and make an active contribution to the reduction of human rights violations in the region.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABRI</td>
<td>Advisory Board Responsible Investment</td>
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<tr>
<td>ACGA</td>
<td>Asian Corporate Governance Association</td>
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<td>AGM</td>
<td>Annual General Meeting (of shareholders)</td>
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<td>ATNI</td>
<td>Access to Nutrition Index</td>
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<td>AWEA</td>
<td>American Wind Energy Association</td>
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<td>CDP</td>
<td>Carbon Disclosure Project</td>
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<td>CII</td>
<td>Council of Institutional Investors</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>ECSP</td>
<td>Erasmus Centre for Strategic Philanthropy</td>
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<td>EGM</td>
<td>Extraordinary General Meeting (of shareholders)</td>
</tr>
<tr>
<td>EMC</td>
<td>Emerging Markets Credits</td>
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<tr>
<td>ESG</td>
<td>Environmental, Social and Governance</td>
</tr>
<tr>
<td>GRESB</td>
<td>Global Real Estate Sustainability Benchmark</td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<td>ICGN</td>
<td>International Corporate Governance Network</td>
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<tr>
<td>ICMM</td>
<td>International Council on Mining and Metals</td>
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<tr>
<td>IIGCC</td>
<td>Institutional Investors Group on Climate Change</td>
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<tr>
<td>ILO</td>
<td>International Labor Organization</td>
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<tr>
<td>ILPA</td>
<td>Institutional Limited Partners Association</td>
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<td>ISS</td>
<td>Institutional Shareholder Services</td>
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<td>KPI</td>
<td>Key performance indicator</td>
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<td>LEOP</td>
<td>Listed Equity Ownership Policy</td>
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<td>MSOP</td>
<td>Management Say on Pay</td>
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<tr>
<td>NBIM</td>
<td>Norges Bank Investment Management</td>
</tr>
<tr>
<td>PRI</td>
<td>Principles for Responsible Investment</td>
</tr>
<tr>
<td>RI</td>
<td>Responsible Investment department of PGGM</td>
</tr>
<tr>
<td>RIRE</td>
<td>Responsible Investment Policy for Real Estate</td>
</tr>
<tr>
<td>RSPO</td>
<td>Roundtable on Sustainable Palm Oil</td>
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<tr>
<td>SEC</td>
<td>Securities Exchange Commission</td>
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<td>SEG</td>
<td>Sudan Engagement Group</td>
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<td>SPDC</td>
<td>Shell Petroleum Development Corporation</td>
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<tr>
<td>UC,AV</td>
<td>Unmanned Combat Air Vehicle</td>
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<tr>
<td>UNEP</td>
<td>United Nations Environment Programme</td>
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<tr>
<td>UNFCCC</td>
<td>United Nations Framework Convention on Climate Change</td>
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<tr>
<td>UNPRI</td>
<td>United Nations Principles for Responsible Investment (see also PRI)</td>
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</tbody>
</table>
PGGM is committed to the Principles for Responsible Investment, an initiative of investors in co-operation with the United Nations (UNEP Finance Initiative and UN Global Compact). PRI applies six Principles for Responsible Investment. References to these principles in our reporting on our policy and activities in this annual report are detailed below.

Principles for Responsible Investment (PRI)

**Principle 1.**
We will incorporate ESG issues into our investment analysis and decision-making processes

Activities:
- Address ESG issues in the investment policy
- Support development of ESG-related tools, metrics and analyses
- Assess the capabilities of external investment managers to implement ESG subjects
- Ask financial service providers to integrate ESG subjects into their research and analysis
- Encourage academic and other research on this subject
- Promote ESG training for investment professionals

**Principle 2.**
We will be active owners and incorporate ESG issues into our ownership policies

Activities:
- Develop and disclose an active share ownership policy
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation and standard setting (such as promoting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake ESG-related engagement and report on it
Principle 3.
We will seek appropriate disclosure on ESG issues by the entities in which we invest
Activities:
- Ask for standardised reporting on ESG issues (e.g. Global Reporting Initiative indicators) - Section 5
- Ask for ESG disclosure to be integrated within annual financial reports - Section 5
- Support shareholder initiatives and resolutions promoting ESG disclosure - Section 4

Principle 4.
We will promote acceptance and implementation of the Principles within the investment industry
Activities:
- Include Principles-related requirements in requests for proposals (RfPs) - Section 2
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly - Section 2
- Communicate ESG expectations to investment service providers - Section 2, 4.2
- Review relationships with service providers which do not fulfil ESG expectations - Section 2
- Support the development of resources for benchmarking of ESG integration - Section 2
- Support regulatory or policy developments that enable implementation of the Principles - Section 5

Principle 5.
We will work together to enhance our effectiveness in implementing the Principles
Activities:
- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning - Section 5
- Collectively address important issues - Section 5
- Develop or support appropriate collaborative initiatives - Section 5, Appendix I

Principle 6.
We will each report on our activities and progress towards implementing the Principles
Activities:
- Disclose how ESG issues are integrated within investment practices - Section 2 & 3
- Disclose active share ownership policy (voting, engagement, and/or policy dialogue) - Section 4 & 5
- Show what is required of service providers in relation to the Principles - Section 4 & 5
- Communicate with participants about ESG issues and the Principles - 2011 Annual Report
- Report on developments and achievements relating to the Principles - 2011 Annual Report
- Try to determine the impact of the Principles - 2011 Annual Report
- Make use of reporting to raise awareness among a broader group of stakeholders - 2011 Annual Report
The Global Reporting Initiative (GRI) is a worldwide standard for reporting on ESG factors by companies. This GRI Index provides an overview of the activities described in this 2011 annual report based on the GRI indicators (G3, 2006 version) and the GRI Financial Services Sector Supplement (2008 version).

### GRI general indicators

<table>
<thead>
<tr>
<th>GRI general indicators</th>
<th>Reference section</th>
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<tr>
<td>Strategy and analysis</td>
<td>Foreword</td>
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<tr>
<td>Statement from CEO about the relevance of sustainability to the organisation and its strategy.</td>
<td></td>
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<tr>
<td>Organisational profile</td>
<td>About PGGM</td>
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<td>Name of the organisation</td>
<td>About PGGM</td>
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<td>Primary brands, products and/or services</td>
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<td>Structure of the organisation</td>
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<td>Awards received</td>
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<td>Reporting period</td>
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<td>Stated where relevant throughout the report</td>
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<td></td>
<td>Appendix IV</td>
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</tbody>
</table>

3.11 Change in reporting

3.12 GRI index
4. Governance, commitment and engagement

4.1 Governance structure

4.2 Executive function of the board chairman

4.3 Independent and/or non-executive board members

4.4 Influence of shareholders and employees

4.14 Stakeholders engaged

4.15 Identification and selection of stakeholders

Sector supplement for the financial sector

FS1 Policies with specific environmental and social components applied to business lines

FS2 Procedures for assessing and screening environmental and social risks in the business lines for each policy

FS4 Process(es) for improving staff competency to address environmental and social risks and opportunities

FS5 Interactions with clients and other stakeholders on environmental and social risks

FS6 Percentage of the portfolio by region, size and sector

FS7 Monetary value of products and services of each business line which have social added value

FS8 Monetary value of products and services of each business line which have added value for the environment

FS10 Percentage and number of companies held in the portfolio with which interaction has taken place on environmental and social issues

FS11 Percentage of assets subject to positive and negative environmental or social screening

FS12 Environmental or social aspects of the voting policy for shares subject to voting right or recommendation

In PGGM’s opinion, the following GRI indicators are inapplicable or irrelevant having regard to the nature of PGGM’s activities: FS3, FS9, FS13, FS14, FS15, FS16
Appendix V Accountability and reporting basis

Reporting basis

This PGGM Annual Responsible Investment Report 2011 provides information on the 2011 financial year running from 1 January to 31 December 2011. It is limited to the responsible investment activities which take place within PGGM Vermogensbeheer B.V. Any references to clients in this report are deemed to include clients investing in the funds and clients for whom discretionary portfolios are managed.

Selection of material subjects

As a responsible investor with a widely diversified portfolio, it is not easy to define the most essential subjects that affect our activities in the field. The most relevant subjects have been selected on the basis of various sources, such as our clients, their participants, social organisations, brokers and data suppliers. They are human rights, weapons, good corporate governance, climate change and health. These subjects are reflected in our voting, engagement projects, exclusions, the selection of targeted ESG investments and the assessment of investment proposals and analyses relating to ESG factors.

Guidelines

In compiling the PGGM Annual Responsible Investment Report 2011 we have followed the international reporting guidelines of the Global Reporting Initiative, in particular the GRI Financial Services Sector Supplement (FSSS Final Version, 2008). We report on application level C. That is the highest attainable level, because the annual report concerns activities in asset management and not those at corporate PGGM N.V. level. Appendix IV of this annual report includes a GRI index with the FSSS indicators. Appendix III shows how our policy and activities fit in with the six Principles for Responsible Investment.

Verification

The text of the PGGM Annual Responsible investment Report 2011 has been verified internally by the Tax, Legal and Compliance department and others. The benefit of external supervision by an independent auditor would (currently) be outweighed by the cost. The non-financial data has been compiled using the databases of the Responsible Investment department and external suppliers.
PGGM Coöperatie U.A.

PGGM has a co-operative structure and operates on a not-for-profit basis. PGGM Coöperatie U.A. is the sole shareholder of PGGM N.V. and was formed by the social partners in the health and welfare sector. The members of the co-operative organisation are employers and employees (and their partners) in the health and welfare sector. Profit is not an aim in itself, but a means of providing consistently better service for the members of the co-operative organisation. As a co-operative organisation, PGGM helps over 550,000 members to secure a valuable future. PGGM works independently or with strategic partners to develop innovative future benefit solutions combining pensions, care, accommodation and employment.

PGGM N.V.

PGGM N.V. is a pension service provider offering pension management, integrated asset management, management support and policy advice to its institutional clients. PGGM currently works on behalf of six pension funds, managing more than €110 billion of pension assets of 2.5 million people. Sustainability is embedded not only within PGGM Vermogensbeheer through responsible investment, but is also embedded in the other units of PGGM N.V. For 2012, PGGM has compiled an ambitious programme focused on a valuable future (an important part of sustainability for a pension service provider), on responsible investment, on the members of our co-operative organisation and on our own operations. (See box “PGGM and Corporate Social Responsibility”)

PGGM Vermogensbeheer B.V., part of PGGM N.V., falls within the responsibility of the CIM and implements the policy on responsible investment. Eloy Lindeijer, as CIM, is responsible for the definition and implementation of this policy. PGGM Vermogensbeheer B.V. employs 279 people, all based at Zeist in the Netherlands.

Our activities

Our clients have instructed PGGM to provide integrated asset management. PGGM advises its clients on the investment policy on the basis of a strong conviction that responsible investment must form part of this policy.
PGGM’s clients nevertheless remain the owners of the outsourced pension capital and determine their own pension and investment policy. PGGM is therefore the manager of the assets and always invests on behalf of its clients.

PGGM carries out asset management on behalf of Stichting Pensioenfonds Zorg en Welzijn, Stichting Bedrijfstakpensoenfonds voor de Particuliere Beveiliging, Stichting Beroepspensioenfonds voor Zelfstandige Kunsten AENA, Stichting Pensioenfonds Cultuur and Stichting Pensioenfonds voor de Architectenbureaus. In 2011, Stichting Pensioenfonds voor Huisartsen and the administrative organisation DPFS (Doctors Pension Funds Services) chose to work with PGGM, including for the provision of asset management services.

PGGM manages various investment funds for its clients. It also manages discretionary portfolios which belong specifically to one of our clients. Any references to clients are deemed to include clients investing in the funds and clients for whom discretionary portfolios are managed.

The Dutch pension administration organisation PGGM and the Danish pension administration organisation PKA have signed an agreement to exchange knowledge and collaborate in various areas, including investments. Both PGGM and PKA operate pension funds with participants from the health and welfare sector within a worldwide investment environment. The objective of this collaboration is to identify added value in diverse fields, such as members’ involvement, risk management, cost benchmarking (and cost transparency) and joint investment opportunities.

### Composition of the managed investment portfolio

PGGM manages a diversified investment portfolio with the following categories: liquid equities (listed shares), private equity (unlisted shares), real estate, infrastructure, structured credit, investment grade corporate bonds, high-income bonds, hedge funds, real assets, insurance, quantitative strategies, mezzanine, emerging market corporate bonds, cash and other assets, commodities, and interest rate and inflation risk (including government bonds).

<table>
<thead>
<tr>
<th>Variable-yield securities</th>
<th>62.6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>36.4%</td>
</tr>
<tr>
<td>Real Estate &amp; Infrastructure</td>
<td>14.5%</td>
</tr>
<tr>
<td>High-income bonds</td>
<td>7.3%</td>
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<td>Commodities</td>
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</tr>
<tr>
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<td>0.1%</td>
</tr>
<tr>
<td>Other assets</td>
<td>3.7%</td>
</tr>
<tr>
<td>Cash</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Breakdown of managed investments by region (at end of 2011)</th>
</tr>
</thead>
<tbody>
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<td>Region</td>
</tr>
<tr>
<td>America</td>
</tr>
<tr>
<td>Asia</td>
</tr>
<tr>
<td>Emerging Markets</td>
</tr>
<tr>
<td>Europe</td>
</tr>
</tbody>
</table>

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**Breakdown of the managed investment portfolio (at end of 2011)**

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<th>Component</th>
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<tr>
<td>Emerging Markets</td>
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</tr>
<tr>
<td>Europe</td>
<td>45%</td>
</tr>
</tbody>
</table>
In 2011 there was a renewed focus on sustainability within PGGM. For PGGM, sustainability is the realisation that it is necessary to invest today in a valuable future for tomorrow. That means respect for mankind and the environment, conserving resources to avoid scarcities in the future and doing business responsibly. In that way we will continue to develop in the field of responsible investment, but it also means we will actively encourage members of the co-operative organisation to contribute to sustainability. We have already begun doing this by offering sustainable membership advantages. But we will also help the health and welfare sectors to achieve their sustainability ambitions. For example, PGGM is a co-founder of the CSR Manifesto for Care, which will be further developed in the year ahead. Sustainability also means that we seek new solutions for pensions, care, accommodation and employment. In partnership with Rabobank and CZ, PGGM has developed a system to unlock social capital. In the future we will be increasingly dependent on active citizenship and assist each other, because formal care systems will come under increasing pressure. We are taking the lead with a new pension contract. In that way we will contribute to a sustainable system for retirement.

Sustainability also means that we ourselves must operate sustainably as an organisation. We have installed a charging point for electric cars and we offset our CO₂ emissions from flights and leased cars. The opening of the new office building means that we now have a single office location. At the same time, we have introduced the ‘new way of working’, whereby employees are given greater scope to work from home. PGGM has also taken major steps towards greater sustainability in the ICT environment, partly by virtualising its server park. Finally, PGGM has an age-aware personnel policy aimed at the continuing deployability of staff of all ages.
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For further information, please contact
Dr Marcel Jeucken
Managing Director Responsible Investment

PGGM Vermogensbeheer B.V.
Noordweg Noord 150
3704 JG Zeist

PO Box 117
3700 AC Zeist
Telephone: 030 277 9911
E-mail: Responsible.Investment@pggm.nl
Website: www.pggm.nl

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