

PGGM

ASSET MANAGER

1. ABOUT PGGM

Headquarters:	The Netherlands
Nature of assets managed:	Diversified/specialized financial services
Asset classes invested in:	Public equities; fixed income; private equity; real estate; infrastructure and real assets; microfinance; cash
Total assets under management (AUM): ^a	€182 billion (US\$221 billion) (2014)
Website:	www.pggm.nl

^aAUM approximated to U.S. dollars using Yahoo! Finance currency converter and as of the day of the year reported (i.e. AUM reported for 2014 converted using rate from December 31, 2014).
Source: TIIP.

2. PGGM'S SYSTEMS-RELATED APPROACH HIGHLIGHTS

Number of years integrating systems-related approaches:	2 (since 2014)		
Systems focused on:	<input checked="" type="checkbox"/> Environmental	<input checked="" type="checkbox"/> Societal	<input checked="" type="checkbox"/> Financial
<i>Including:</i>	<i>Climate change; water scarcity</i>	<i>Food security; healthcare; human rights</i>	<i>Financial system stability</i>
Asset classes systems-related approaches integrated into:	Public equities; fixed income; private equity; real estate; infrastructure and real assets		
Systems-related approaches:	ESG integration; universal ownership; long-term value creation; impact investment; investment stewardship; negative exclusionary screening		

Source: TIIP.

3. THE PGGM "TIIPING" POINT

Of particular interest from the point of view of systems-level considerations are the commitments of PGGM to exploring policies and practices that intentionally emphasize **solutions to underlying systems-level challenges as well as self-organization through field building and thought leadership.**

By allocating several billion Euros of its assets under management to a portfolio that is "investing in solutions for sustainable development," PGGM brings to its investment approach a sharp focus on issues that "contribute to 'financial ambition' with regular risk and return expectations" and at the same time are "intended to support positive impact on at least one of [its] selected themes" (Klop 2016). It has focused on four themes with environmental and societal challenges that address systems-level considerations: climate change, water scarcity, healthcare, and food security. PGGM uses its expertise in these areas to identify investments that have substantive, measurable impact while producing competitive financial returns.

PGGM has also taken a leadership role in measurement and reporting. Its 2014 *Annual Responsible Investment Report*, for example, clearly defines and measures the ways in which its investment strategies are relevant simultaneously to society and to PGGM and its clients for climate change, water security, healthcare, food security and a “stable financial system that serves the real economy.” It also defines and measures the alignment of its investment strategies with the United Nations Sustainable Development Goals.

To a degree unusual among large asset owners today, PGGM’s focus on **solutions and the measurement of their benefits simultaneously to society and to its clients implies an understanding of the interrelationship between portfolio-level decision-making and systems.**

4. PGGM’S SYSTEMS-RELATED APPROACH DETAILS

PGGM is the second- largest pension fund in the Netherlands with about 2.6 million participants. Systems-related activities are central to PGGM’s overall investment and advisory strategies. The foundation of PGGM’s approach is the firm’s belief that the health and stability of systems directly impacts the long-term viability and sustainability of client investment portfolios and vice versa. To that end, the focus of PGGM’s approach (referred to as the firm’s “responsible investment”

Primary Reasons for Undertaking a Systems-Related Approach	
<input type="checkbox"/> Regulations	<input checked="" type="checkbox"/> Non-financial returns
<input type="checkbox"/> Financial returns	<input checked="" type="checkbox"/> Macro trends
<input checked="" type="checkbox"/> Asset owner demand or preference	<input checked="" type="checkbox"/> Risk reduction
<input type="checkbox"/> Stakeholder considerations	<input checked="" type="checkbox"/> Align investments with organizational beliefs
	<input type="checkbox"/> Other

approach) is sustainable development—defined as “development which meets the needs of current generations without compromising the needs of future generations” (PGGM (c))—within seven specific areas selected in consultation with clients:

- ✓ Climate change
- ✓ Water scarcity
- ✓ Healthcare
- ✓ Food security
- ✓ Financial system stability
- ✓ Corporate governance
- ✓ Human rights

Three core beliefs guide PGGM’s approach:

1. **Responsible investment pays off**; in other words, “sustainability factors materially influence the risk-return profile of investments an influence that will steadily increase over time” (PGGM (c)).
2. **Sustainable development promotes good and stable long-term returns for clients.**
3. **Capital is a driving force for sustainable development**; meaning that PGGM must consider how to make a positive contribution to sustainable development through its investment decisions (e.g. by investing in sustainable development solutions like renewable energy).

a. ACTIVITIES, MEASUREMENT AND REPORTING AND STAFF

Activities. PGGM’s approach includes six activities, which the firm refers to as its responsible investment “instruments.” These activities are outlined in Table 1 (see the end of this profile). Box 1 below spotlights **investing in solutions for sustainable development**, which is one of the distinguishing features of PGGM’s approaches.

Beyond the activities reported in Table 1 and Box 1, PGGM also **participates in advocacy and peer exchange activities** across a range of issues and topics. Recent activities include: (a) partnering with the Institutional Investors Group on Climate Change (IIGCC) and participating in meetings with European Commission (EC) representatives to develop a climate change plan for 2030—among other things, the plan aims for a 40% reduction in greenhouse gas emissions; (b) joining the Ellen MacArthur Foundation Circular Economy 100 and, as part of an organization subgroup, investigating the implications of the circular economy on the financial sector, and; (c) signing the Montreal Pledge, a commitment to measuring and reporting on greenhouse gas emissions related to investment portfolios.

Asset Classes Systems-Related Activities Executed In

- Public equities
- Fixed income
- Private equity
- Real estate
- Infrastructure and real assets
- Commodities
- Microfinance
- Cash
- Other

Box 1. Investments in Solutions for Sustainable Development

Investing in solutions for sustainable development is one of six approaches employed by PGGM. According to a recent (February 2016) PGGM presentation, investing in solutions represents the intersection of traditional, finance-only, investments and philanthropy, where “focus on one or a cluster of issue areas where social or environmental need create a commercial growth opportunity for market-rate or market-beating returns.” Investments in solutions otherwise have four defining features:

1. They “contribute to ‘financial ambition’ with regular risk and return expectations”;
2. They are “intended to support positive impact on at least one of the selected themes, as established ex-ante or ex-post”;
3. The “impact created by the investee is substantial relative to a baseline or relevant benchmark,” and;
4. That “impact is measured, managed and communicated in real terms.”

PGGM invests in solutions in four of its sustainability target areas (climate change, water scarcity, healthcare, and food security) and across asset classes; the firm has also made efforts to align the themes targeted by the “investing in solutions” portfolio with the United Nations Sustainable Development Goals. PGGM is developing indicators to measure the impacts of these investments.

Source: PGGM (c).

Outcomes measurement and reporting. PGGM reports on the cumulative progress of each of its six systems-related approach activities annually to the public through its *PGGM Annual Responsible Investment Report*. Among other things, the report describes each new action undertaken in the reporting year within each of PGGM’s seven sustainable development areas and provides aggregate information on progress toward outcomes within each systems-related activity (see Table 1).

PGGM requires fund managers and its solutions-oriented companies to submit reports (or “fact sheets”) that (a) describe the social challenge(s) addressed by the investment and how the investment contributes to the solution, (b) report quantitative progress indicators, (c) discuss the long-term

objectives pursued by the company or project and the broader impact that the company or project has on the sector, and (d) note any additional positive impact sought but not explicitly pursued by the investment.

Staff. PGGM’s **responsible Investment department** is tasked with the overall and ongoing development and execution of the firm’s systems-related policies; advises clients on the implementation and evaluation of some activities and directly implements others (e.g. exclusions, voting, engagement and shareholder litigation); provides overall firm thought leadership on systems and guidance to other PGGM departments’ thought leadership; and reports on policies and their progress to clients and the public. In total, PGGM has 14 dedicated responsible investment staff, led by the Managing Director for Responsible Investment.

b. POLICY DEVELOPMENT AND DECISION-MAKING

Various entities develop PGGM’s *Beliefs and Foundations* and *Framework* and/or craft and execute the firm’s systems-related approach and activities; including:

- **Investment Policy Committee:** primary responsibility for establishing firm systems-related policy and developing and revising the *Beliefs and Foundations* and *Framework*.
- **Investment Committee:** determines systems-related policy implementation, including development of the exclusions list (see Table 1).
- **Clients:** each client develops its own systems-related policy. Clients participating in a particular fund discuss and can jointly decide fund-specific systems-related policies (e.g. new exclusions or exclusion criteria).
- **Advisory Board for Responsible Investment:** external advisory board established explicitly for PGGM and its clients; advises on operationalization of, and changes to, the *Beliefs and Foundations* and *Framework*, and provides other systems-related guidance upon request.

PGGM updates the *Beliefs and Foundations* and *Framework* as necessary to reflect the evolving systems landscape and to adapt to changing client needs. Both PGGM and clients can propose changes, which, depending on their extensiveness, are vetted by the PGGM Advisory Board for Responsible Investment and reviewed by clients. The *Framework* specifies implementation guidelines for four types of systems-related activities—ESG integration, active equity ownership (voting, engagement, shareholder litigation), exclusions, and investing in solutions for sustainable development—by asset class, and for both PGGM mutual funds and segregated mandates.

c. SUCCESSES AND CHALLENGES

TABLE 2. PGGM Systems-Related Approach Successes and Challenges

Successes
<ul style="list-style-type: none"> • Articulation of what future [PGGM] wants to invest in (including specific systems, investment target, ‘investment solutions’ brand)
<ul style="list-style-type: none"> • Actually building [a] universe of positive impact equities, which is quickly becoming some sort of in-house yard stick
<ul style="list-style-type: none"> • Cross-asset class exploration of ESG risks and opportunities for potential adjustment of Strategic Asset Allocation
Challenges
<ul style="list-style-type: none"> • Narrowing of [the] investment universe, which flies in the face of Modern Portfolio Theory and other conventional thinking
<ul style="list-style-type: none"> • Leap of faith; projecting the future with, say, 20 years of hard data

- Unease with value judgments

Source: TIIP.

TABLE 1. Summary of PGGM's Systems-Related Activities

Activity ^a	Description and Select Example(s)	Select Reported Results, Outputs and/or Outcomes
 Investment belief statements	<p>The <i>PGGM Beliefs and Foundations for Responsible Investment</i>, which are developed in consultation with clients, establish the firm's systems-related core beliefs and introduce PGGM's systems-related objectives, foundational principles, and focus areas.</p>	<p>n/a</p>
 Security selections; portfolio construction	<p>Exclusions (Instrument 2). Assessments of the behavior and activities of entities invested in, and the pursuit of changes in behaviors that undermine sustainability or termination of investments when change fails; exclusion from investment entities involved in production or trade of products inconsistent with the investment beliefs of PGGM or its clients.</p> <ul style="list-style-type: none"> • Ceased investment in five Israeli banks that are involved in financing the expansion of settlements in occupied Palestinian territories. • Added CNIM (France) and Motovilikha Plants (Russia) to the exclusions list for their involvement with nuclear weapons and rocket launchers that can produce cluster weapons, respectively. <p>Environmental, social, and corporate governance (ESG) integration (Instrument 3). The structural and systematic incorporation of material ESG factors (factors which have a significant impact on the underlying investment) in existing investment processes.</p> <ul style="list-style-type: none"> • Developed an ESG index, which incorporates 70 criteria for gauging ESG policy and performance of companies invested in or being assessed for future investment. • Formed the Behavior Working Group, which: assessed PGGM and its clients' roles in a sustainable financial system; developed a vision for the definition of "sustainable financial system" and an action plan for PGGM activities in line with that vision; and drafted guidelines for clients on acceptable remuneration. 	<p>In 2014:</p> <ul style="list-style-type: none"> ✓ Added two companies and government bonds of the Central African Republic added to exclusions list ✓ ESG factors analyzed for 100% of new investments in external investment funds

 <p>Engagements</p>	<p>Engagement (Instrument 4). Activities undertaken to generate change in the ESG field through dialogue with companies and markets, including with regulators, supervisors, and sector organizations.</p> <ul style="list-style-type: none"> • Met with Japanese health and foreign affairs officials and pharmaceutical companies to strategize approaches to improving access to medicine in developing countries as part of the Global Health Innovative Technology fund. • Jointly submitted a shareholders' proposal to Oracle, an American IT company, to change its governance and remuneration structures. <p>Legal proceedings (shareholder litigation) (Instrument 6). The conduct of legal proceedings as a shareholder in qualified companies (listed and unlisted) in which PGGM invests on behalf of its clients; includes recovering asset losses resulting from fraud etc., improving corporate governance, and preventing undesirable behavior (e.g., corruption).</p> <ul style="list-style-type: none"> • Continued to act as lead plaintiff in a class action lawsuit against American IT company Hewlett Packard (HP); the suit alleges that HP unlawfully concealed disappointing acquisition results from investors, which adversely affected share prices and resulted in significant losses. 	<p>In 2014:</p> <ul style="list-style-type: none"> ✓ Engaged with 510 companies in 2014 about issues including the environment (21 results), social factors (32 results), and corporate governance (80 results) ✓ Recovered approximately €2.7 million as part of legal proceedings
 <p>Targeted investment programs</p>	<p>Investing in solutions for sustainable development (Instrument 1). Investments that seek to help solve socioeconomic and environmental issues alongside pursuit of financial returns; specifically, for climate change, water scarcity, healthcare, and food security.</p> <ul style="list-style-type: none"> • Invested in GDF Suez green bonds, which are used to finance renewable energy projects. • Acquired the Ennatuurlijk heating network from Essent in partnership with energy service company Dalka; Ennatuurlijk is committed to increasing sustainability in the Netherlands through local energy production. <p>Investing in the Netherlands. PGGM believes that a strong Dutch economy is important to the long-term financial interest of its clients; as such, PGGM "invests in the Netherlands" through government bonds, investments in banks capital used to finance Dutch small and medium-sized enterprises, and so on.</p>	<p>In 2014:</p> <ul style="list-style-type: none"> ✓ €123 million invested in solutions in climate change, water scarcity, healthcare, and food security in 2014 ✓ €19 billion (10.5 % of pension assets) invested in the Netherlands in 2014
 <p>Manager selection</p>	<p>n/a</p>	<p>n/a</p>

^aDefinitions of systems-related activities (instruments) contained in this table are as discussed in the *Framework* and contain verbatim excerpts from the document. Sources: PGGM (b) and (e).

SOURCES

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PGGM (b). *Annual Responsible Investment Report: 2014*. May 2015. Accessed from https://www.pggm.nl/english/what-we-do/Documents/responsible-investment-annual-report-2014_pggm.pdf.

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