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Responsible Investment
Annual Report 2012

PGGM

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PGGM

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Management Statement

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 Responsible Investment Annual Report 2012, we have followed the international reporting principles of the Global Reporting Initiative.

We have assessed the Annual Responsible Investment Report 2012 and declare that the information contained therein, to the best of our knowledge and belief, presents a true and fair view of the reality. This Responsible Investment Annual Report 2012 is provided with an independent assurance report from KPMG Sustainability, an external independent auditor. This assurance report is attached in appendix 2 of this Responsible Investment Annual Report 2012.

Zeist, 5 April 2013

Board of PGGM Vermogensbeheer B.V.

Foreword

To our clients and stakeholders:

Responsible investment is an integral part of the investment beliefs shared by PGGM and the pension funds for which we invest. We take account of mankind, the environment and society in our investment decisions and engage in dialogue with companies and financial partners. We operate on the basis of a belief that financial and social returns can go hand in hand. At the same time we are aware that this is an ongoing process that is not yet complete.

Sustainability plays a role in almost all sectors in our society. In 2012 the financial sector was a particular focus of attention. There is a low level of trust in this sector. PGGM has concerns about a number of factors, including transparency with regard to the risks and operations of the international banking sector. Central banks and regulators have already taken many steps to reduce systemic risks, but confidence in individual banks remains low. PGGM is maintaining a dialogue on this subject with counterparties in the financial markets and with the banks in which we invest. We are actively pursuing co-operation with other investors and pension funds, both nationally and internationally.

An example in the field of corporate governance is the settlement reached with Bank of America in 2012 concerning embezzlement associated with the acquisition of Merrill Lynch. The settlement provides compensation for the losses suffered by all investors. A second major result of this settlement has been an improvement in the organisational structure of this merged company. A robust system of majority voting is being introduced, whereby a director who fails to secure a majority of votes at the AGM cannot be nominated for reappointment at the following AGM.

As well as implementing a responsible investment policy, we believe it is important to report transparently on our policy. PGGM has published an updated responsible investment policy for private equity and infrastructure investments. These are investment categories in which PGGM has greater direct influence when it comes to controlling sustainability risks and exploiting opportunities in this area. By publishing the investment policy we also hope to encourage other parties to invest and conduct business more responsibly.

Steps were taken in 2012 to increase the degree of responsibility in the passively managed (index) equity portfolio. For this purpose PGGM has developed its own equity index incorporating companies from each sector of the FTSE All World index on the basis of sustainability indicators. PGGM uses this index to assess companies' sustainability performance, demonstrating that responsible investment is possible even in a passively managed environment.

Through its responsible investment policy, PGGM aims to contribute to a better world without losing sight of high and stable returns. This can be achieved through specific investments, such as wind energy, but also by influencing companies as a direct or indirect shareholder.

We are pleased to present our fifth annual report setting out the progress we have made and the steps we have taken in responsible investment in 2012. At the same time we are mindful that further major challenges lie ahead and many more steps need to be taken in this field.

Eloy Lindeijer
Chief Investment Management

Overview of responsible investment in 2012

PGGM and responsible investment

We invest over €133 billion of assets on behalf of our institutional clients. PGGM's clients want us to invest responsibly. That is consistent both with their identity and responsibility and with ours. Responsible investment has therefore been integrated into PGGM's overall investment policy. Responsible investment means that we take account of environmental, social and governance (ESG) factors in all our investment activities.

PGGM invests on behalf of its clients with the clear aim of providing high-quality, affordable pensions. The achievement of high and stable returns with a responsible level of risk is therefore paramount in all investment decisions. We and our clients are convinced that financial and social returns go hand in hand. Responsible investment contributes to high-quality pensions and a better future. At PGGM, responsible investment comprises five key points which form the basis of our responsible investment policy:

- We act on the basis of a conviction that financial and social returns can go hand in hand.
- We make responsible choices based on our identity and that of our clients.
- We contribute to the quality and continuity of companies and financial markets.
- We encourage partners in the financial sector to invest responsibly;
- We report on targets, activities and results in the field of responsible investment.

PGGM's responsible investment activities are subdivided into six pillars, which are set out below:

1. We integrate ESG factors in the various investment processes.
2. We make targeted ESG investments.
3. We make use of our voting rights as a shareholder.
4. We enter into a dialogue with market participants and companies in which we invest (engagement).
5. Where necessary, we institute legal proceedings.
6. We exclude certain investments.

Conduct in the financial sector

PGGM shares society's concerns about the operation of the financial sector and its attitude to customers and society. Trust in the financial sector was undermined during the reporting year by revelations concerning banks' manipulation of the Euribor interest rate and in the Netherlands by the run-up to the nationalisation of SNS Reaal. As an asset management organisation we too are firmly part of the financial sector, not only as a client but also as an active player and as a shareholder. We must constantly hold up a mirror to ourselves and look critically at our own role in promoting transparency, risk disclosure, customer service and the restoration of trust in the financial sector. We therefore began examining our own role and that of other parties in the financial sector in 2012. An important activity in the banking field was our participation in a working group of the Enhanced Disclosure Task Force, a worldwide initiative by compilers and users of banks' annual reports, under the auspices of the Financial Stability Board. The EDTF is calling on banks to practise greater transparency with regard to their current risks, corporate culture and business model.

Investing in the Netherlands

With regard to our own role in the financial sector, we do not only look at the international markets; the consequences of the financial crisis are evident in the Netherlands too. The mortgage market is in the doldrums and investments in the construction sector, for example, are declining. The question has therefore been raised in political circles as to whether institutional investors could contribute to economic development by investing more in the Netherlands. In that context PGGM has joined with other pension administration organisations and pension funds in calling for the establishment of a national mortgage bank in which pension funds could participate through government-backed bonds. By making it easier for Dutch banks to fund themselves in the international capital market, pension funds could make a direct contribution to financial stability in the Netherlands and the recovery of the housing market.

Other initiatives aimed at assessing possible investments in the Netherlands relate to more energy-efficient homes and sustainable power generation. PGGM supports a national energy accord aimed at policy certainty, public-private partnerships and the combination of knowledge, skills and economies of scale.

Innovation

Responsible investment is an area that is still developing. PGGM's activities in 2012 included the development of an ESG index for a "more responsible equity portfolio". The ESG index model selects the top 90% of companies in each sector in the equity portfolio. The companies are selected from a set of over 70 indicators measuring performance in terms of ESG factors. The number of relevant indicators differs depending on the sector. The 10% poorest performing and/or managed companies in a sector are not included in the ESG index or are placed on a watchlist. We initiate engagement projects with companies on this watchlist and they remain in the equity portfolio during the engagement process. The index is reconstituted every year. This unique model enables PGGM to take account of ESG performances and risks even in the passively managed equity portfolio. It also provides a great deal of information and insight, which PGGM can use in its engagement projects with companies. The ESG index is an approach which PGGM uses in combination with engagements and exclusions.

The six pillars of responsible investment

1. ESG integration in investment processes

The environment, social aspects and the quality of corporate governance can affect our clients' investment returns. Conversely, the investments, as well as the investee companies and projects, can have an effect on the world. PGGM is therefore convinced that taking account of ESG factors contributes to good risk management and can ensure that financial returns are coupled with lasting social improvements. PGGM has also found, however, that sustainable investments entail risks which cannot be foreseen when the investment decision is taken and which can put substantial pressure on financial returns. In 2012, PGGM invested in Mareña Renovables, a wind farm in Mexico. This project is making an important contribution to the development of sustainable energy in Mexico. It nevertheless had to contend with social and political opposition which did not go unnoticed in the media, including in the Netherlands. Despite major efforts on the part of Mareña to convince the local population and activists of the positive contribution the project will make to sustainable energy supplies in Mexico and the well-being of the local population, the construction of the project had incurred costly delays by the time of publication of this annual report. PGGM will therefore continue to monitor the situation closely in 2013.

A great deal of attention was also devoted to the possible effects of agricultural commodity investments on global food prices in 2012. The debate revolved particularly around the affordability and hence accessibility of food in poor regions of the world. Although PGGM believes it has not been demonstrated that such investments cause hunger in developing countries, we are assessing our position and engaging in discussions with NGOs, scientists and other experts.

PGGM seeks to limit financial ESG risks and exploit financial opportunities in the ESG field. To that end ESG implementation projects have been running since 2010 as part of related investment processes. The purpose of these is to integrate ESG more structurally in the investment processes. A policy for responsible investment in private equity and infrastructure was published in 2012, defining frameworks within which PGGM can control ESG risks and exploit opportunities in these investment categories.

2. Investments with ESG impact

Targeted ESG investments are investments which not only contribute financially to the return on the portfolio but are also intended to generate social added value. PGGM assessed and refined the definition and processes for this type of investment in 2012. All targeted ESG investments were assessed within this amended framework during the year. Both existing and potential targeted ESG investments were assessed, partly to improve accountability and gauge the social added value.

3. Voting as an active shareholder

One of the most important rights a shareholder has is the right to vote at shareholder meetings. PGGM's aim is to vote on behalf of its clients at all shareholder meetings of the companies in which it invests. In 2012 we voted at 3,106 shareholder meetings, or 99.7% of all the shareholder meetings of the listed companies in the portfolio. By using its voting right, PGGM can voice opinions on behalf of its clients on company resolutions relating to matters such as pay. The way we vote on agenda items at shareholder meetings is determined by our own policy. A subject that arose increasingly in 2012 in relation to the use of voting rights and in the dialogue with companies was the independence of company directors.

4. Importance of engagement

As an investor we believe we have a responsibility to enter into a dialogue with market participants, such as law makers and stock exchanges, and companies with regard to their policies and activities. Our aim is to bring about improvements in the environmental, social and governance (ESG) field in the belief that this ultimately contributes to better social and/or financial returns on our investments. We call this engagement.
One of the themes of our engagement in 2012 was water scarcity. This is a growing problem, particularly in fast-growing economies such as China and India. Tackling water scarcity primarily involves political choices. But companies too can help by reducing their own water consumption and contributing to collective water security. PGGM joined forces with a Norwegian asset management organisation during the year to encourage mining and power companies in China and India to define and reduce their water risks.

PGGM focuses particularly on sectors which present relatively high ESG risks, such as the mining sector and the oil and gas sector. Companies in these sectors are regularly the subject of public debate because of these risks. In 2012 PGGM's engagement with the oil and gas sector was mainly aimed at understanding companies' risk control measures and promoting maximum control. We also believe the sector should focus increasingly on clean energy.

The engagement programme does not always deliver the desired results. Last year, for example, the Walmart supermarket chain bore out our concerns about deficient supervision and accountability following a bribery scandal at one of its branches in Mexico. We believe the company is not handling this scandal with sufficient transparency. Nor do the directors appear very receptive to our concerns. We therefore voted against the incumbent management, but a majority of shareholders voted in favour.

Shareholders in the United States generally have fewer rights than their counterparts in Europe, for example. We therefore support projects aimed at improving shareholder rights in the American market. In March 2012 PGGM co-organised and participated in a round-table meeting in New York on the possibilities of developing a code for good corporate governance in the United States. This meeting was a follow-up to the successful international meeting which PGGM organised on this subject in the Netherlands in 2011.

5. Legal proceedings

PGGM sometimes institutes legal proceedings, both in the Netherlands and abroad, to recover investment losses resulting from fraud or corporate misconduct and to enforce good corporate conduct. On 28 September 2012 PGGM announced a historical settlement which brought an end to the legal proceedings against Bank of America in the United States. Bank of America is paying record damages of over $2.4 billion to the group of misled shareholders. Their shares more than halved in value when the actual state of affairs concerning Bank of America's acquisition of Merrill Lynch came to light in September 2008. PGGM acted in this case as lead plaintiff on behalf of one of its clients, in co-operation with pension funds from Ohio, Texas and Sweden. In addition to the financial compensation for the wider group of investors, Bank of America was compelled to make various changes to its corporate governance. The case thus not only compensated investors for the losses they had incurred but also improved the structure of the company. We hope this will play a part in preventing similar problems in the future.

6. Deciding not to invest: exclusion

In some cases PGGM decides not to invest in specific companies or government bonds of certain countries because they do not fit in with our identity or that of our clients. For example, we exclude companies involved in the production or trading of controversial weapons. PGGM can also exclude companies from the investment portfolio if they engage in socially irresponsible behaviour and are unwilling to discuss improvements or fail to show any improvement after engagement activities.

Calls are being made by some social organisations and in the media for more products and/or companies to be excluded. In 2012, for example, a debate arose concerning investment in the tobacco industry. This type of investment and the associated debate highlight the dilemmas posed by responsible investment.
PGGM naturally recognises the negative health effects of consuming tobacco, but we see smoking as a personal choice. We discussed this dilemma with our clients in 2012.

Outlook

PGGM is intensifying its activities and pursuing further innovation in responsible investment in 2013. We realise that responsible investment has not yet reached its final state. We therefore remain in discussions with our clients and social organisations with a view to improving our activities, with particular consideration of our own role in the financial sector. Our focus in 2013 will also include matters such as the further development of our ESG index and the intensification of our engagement programme, partly on the basis of the model used for the ESG index.

Implementation of responsible investment activities

The table below shows our results and targets, as agreed with our clients, and the activities for each key performance indicator (KPI). In this annual report we describe the vision and policy behind these objectives and illustrate the activities and results by means of examples and specific cases.

Table 1. KPIs for responsible investment

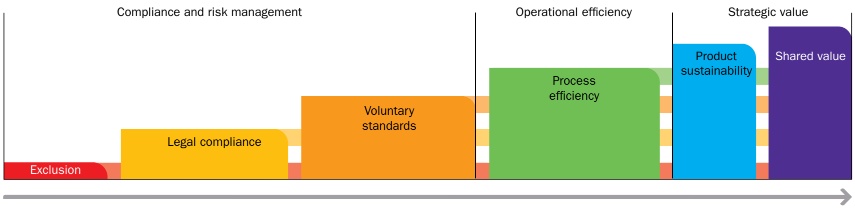
Results and targets of key performance indicators (at year-end)	Actual result 2011	Target* 2012	Actual result 2012	Target* 2013
ESG integration				
Completed in Phase 1 Inventory (as % of total assets under management)	100%		n/a	
Started in Phase 2 Implementation (as % of relevant investment categories)****	80%	100%	100%	n/a
Targeted ESG investments				
Volume of targeted ESG investments/commitments (€ million)	4,730	≥ 5,200	4,219	
New targeted ESG investments/commitments (€ million)*****			747 new	≥ 500 new
Exclusions				
Number of excluded companies	40		42	
% of total assets under management covered by Exclusions Policy**	99%	≥ 99%	99%	≥ 99%
Excluded companies as proportion of FTSE All World benchmark	1.1%		1.1%	
Voting				
Number of shareholder meetings (AGMs) at which votes were cast	3,224		3,106	
Number of votes cast	33,832		33,276	
Number of AGMs at which votes were cast as % of total number of AGMs***	99.5%	≥ 98%	99.7%	≥ 98%
Number of AGMs at which votes were cast as % of Voting Focus List	99%	≥ 99%	100%	≥ 99%
Engagement				
Number of companies engaged with directly**	154	≥ 150	186	≥ 150
Number of companies engaged with indirectly (through F&C)**	453		560	
Value of companies engaged with as % of managed equity portfolio as at 1 January 2011 and 1 january 2012	49%		51%	
Legal proceedings concerning share ownership				
Active proceedings	3		5	
Proceeds of passive legal proceedings	€ 1,351,778		€ 825,977	

* Note: no targets are applicable for some of these components. These components have nevertheless been included in this table to show the results of the various responsible investment activities.
** 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 2013 target and the 2012 and 2011 results concern the number of meetings at which votes were cast excluding blocking markets.
**** See table 2 for the investment categories in which phase 2 is relevant. The actual 2011 result has been adjusted in line with the tighter definition.
***** In 2013 the target for the targeted ESG investments will be the new targeted ESG investments/commitments instead of the volume of targeted ESG investments/commitments. In this way we report consistent with the current agreements with our clients.

Use of responsible investment instruments

The table below shows which pillars of our responsible investment activities are used in the various investment categories.

Table 2. Use of responsible investment instruments***



Legend

- X Applied
- Not applicable
- Not applied

Investment category	ESG in investments*	What we do not want	Improvement					What we do want	% of AUM
		Exclusions	Financial integration of ESG*****		Engagement**	Voting**	Legal proceedings	Targeted ESG investments	
			ESG integration phase 2 started	ESG integration phase 3					
Equities									
Beta equities	X	(X)			X	X	X		25.5%
Responsible equities	X	X	X		X	X	X	X	1.4%
Private equity	X	X	X					X	6.2%
Real Estate									
Listed real estate	X	X	X		X	X	X		6.2%
Private real estate	X	X	X	X					5.5%
Fixed-income securities									
Corporate bonds	X	X	X		****				3.3%
Emerging markets credits	X	X	X		****				0.8%
Emerging markets debt	X	X	X						3.7%
High-yield corporate bonds	X	X	X						2.8%
Structured credit	X	X							1.5%
Rates & Inflation	X	X							26.9%
Cash	X	X	X						1.6%
Commodities									
Beta commodities	X	X							7.1%
Supplementary									
Infrastructure	X	X	X					X	2.2%
Real assets	X	X	X	X				X	0.6%
Insurance	X	X							1.1%
Hedge funds	X	(X)	X						2.8%
Trading & Execution	X	X	X						**0%**
Others	X	X							**0.8%**
% use as proportion of total assets under management	**100%**	**99%**	**37%**	**6.1%**	**37%**	**33%**	**33%**	**3.2%**	

* ESG in investments concerns ESG integration and the incorporation of reputational ESG factors and/or ethical dilemmas in investment processes on the basis of social responsibility. Examples are the ESG index in beta equities, position papers for investments in tobacco and the ESG integration phases. We cannot stay ahead of all reputational, ethical and financial factors. It is therefore a continuous process of incorporating new information in the investments.

** Here we use the narrow definition of engagement and voting from the Responsible Investment Policy. In these cases engagement and voting relate only to listed companies. Forms of engagement and voting also arise in other investment portfolios, such as engagement with fund managers during the investment monitoring phase. We include these in ESG in investment processes.

*** A white field indicates that the instrument is not yet in use. A black field indicates that the instrument cannot be used under the current investment mandate, e.g. because the underlying investments are not known or because there is no scope to use the instrument in a particular investment category.

**** Engagement with regard to corporate bonds or project finance is not yet a targeted programme within PGGM. We engage as a shareholder with companies whose corporate bonds we also hold.

***** A further explanation of the ESG integration phases is provided on page 20.

Introduction

We invest over €133 billion of assets on behalf of our institutional clients. PGGM's clients want us to invest responsibly. That is consistent both with their identity and responsibility and with ours. Responsible investment has therefore been integrated into PGGM's overall investment policy. Responsible investment means that we consciously take account of environmental, social and governance (ESG) factors in our investment activities.

Our specific ESG focal areas are health, good corporate governance, climate change, human rights and weapons. These focal areas were defined with stakeholders in 2006 and embedded in PGGM's Responsible Investment Policy in 2010. They enable us to focus our responsible investment activities. The Responsible Investment Policy has been further detailed 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.

PGGM's responsible investment activities are subdivided into six pillars, each of which is detailed in a separate chapter:

1. We integrate ESG factors in the various investment processes.
2. We make targeted ESG investments.
3. We make use of our voting rights as a shareholder.
4. We enter into a dialogue with markets and companies in which we invest.
5. Where necessary, we conduct legal proceedings.
6. We exclude certain investments.

In this 2012 *Annual Responsible Investment Report* we provide information for our clients, their participants and other interested parties on PGGM's activities in the field of responsible investment. The chapters describe the progress and developments in 2012 and provide concrete examples, which have been chosen to illustrate the regular processes or describe exceptional cases in 2012. They result from an analysis carried out to identify those of greatest relevance to our organisation and our stakeholders. The discussions we conduct with clients and stakeholders and reporting in the media have been taken into account.

In addition to the activities in the six pillars, we also implemented overarching projects in 2012 with the aim of assessing our investing and other activities, examining our own role as an asset manager in the financial sector and developing innovative ways of deepening our responsible investment activities.

We also play an active part in various associations and organisations, including the PRI, Eumedion and the Institutional Investors Group on Climate Change (see website for overview).

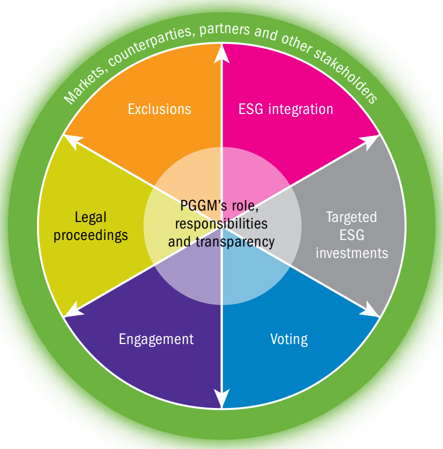


Figure 1 Responsible investment activities circle

Measuring sustainable returns

PGGM carries out various activities to measure the sustainable returns on the portfolio and make them more transparent. One of the objectives for 2012 was to continue developing a method for measuring the contribution made by the entire investment portfolio to a more sustainable world. This method should also show how this contribution has improved over time as a result of our activities in the field of responsible investment.

In 2012 we launched a pilot project to assess the 'sustainable return' generated by our investments in government bonds. We recognise that a country's performance or a change in its performance cannot be attributed to our investments. After all, the capital we provide through our investments represents just a small part of the country's total budget. We have no influence over the way in which the government uses this capital. We can, however, gain an indication of how effectively a government uses the funds available to it, among others through government bonds, for the sustainable development of the country.

We used the 3 x 3 sustainability matrix (page 40) as a basis for compiling this indicator. We sought to translate the matrix themes into indicators that are relevant to the various countries. Ultimately we decided to use five broad, stable indices compiled by reliable organisations which also cover a large number of countries. These show how countries score relative to each other for various indicators. The rank-weighted scores for the indices in table 3 were translated into the sustainable return on government bonds. This produced a snapshot of the countries in the government bond portfolio, enabling their sustainable return scores to be compared to those of other countries in the investable universe. The intention is also to chart movements in these scores in the years ahead.

Table 3 Indices of sustainable returns on government bonds

Theme	Title	Organisation
Milieu	Environmental Performance Index	Yale University
Social	Combination of:	
	Human Development Index	United Nations
	Gender Inequality Index	United Nations
	Human Rights Risk Index	Maplecroft
	Human Rights Risk Index	
Governance	Worldwide Governance Indicators	World Bank

Sustainable financial sector

The financial sector is essential for the operation of the economy. Trust plays an important role but has been dented in recent years, and the sector still has a long way to go to restore trust in all market participants, despite all the national and international initiatives taken by various financial institutions and the sector as a whole. Examples are the Banking Code in the Netherlands and Basel III internationally.

As shareholders, clients and business partners of a number of large financial institutions, PGGM and its clients have relatively major involvement in the financial sector. We therefore believe we have a role to play in encouraging desirable behavioural changes in the sector. In 2012 we took the first step towards developing internal guidelines for our engagement activities with financial institutions aimed at improving the behaviour, structure and supervision within institutions (see the Engagement chapter, page 39). These activities will be further developed and applied as part of the active engagement policy in 2013. Key planks of this policy will include risk management, corporate governance, remuneration policy and corporate culture.

PGGM also looks critically at its own role, because as a large, international asset management organisation we too are part of the financial sector. We therefore look for ways to contribute to a more sustainable financial system. PGGM believes a sustainable financial system is one that promotes the sustainable economic development of society and enjoys the trust of all stakeholders. In 2012 we began considering how PGGM could operate as part of a sustainable financial system. We will continue our assessment and define follow-up steps in 2013.

Investing in the Netherlands

With regard to our own role in the financial sector, we do not only look at the international markets; the consequences of the financial crisis are evident in the Netherlands too. The mortgage market is in the doldrums and investments in the construction sector, for example, are declining. The question has therefore been raised in political circles as to whether institutional investors could contribute to economic development by investing more in the Netherlands. In that context PGGM has joined with other pension administration organisations and pension funds in calling for the establishment of a national mortgage bank. By making it easier for Dutch banks to fund themselves in the international capital market, pension funds can make a direct contribution to financial stability in the Netherlands and the recovery of the housing market. Other initiatives aimed at assessing

possible investments in the Netherlands relate to more energy-efficient homes and sustainable power generation. PGGM supports a national energy accord aimed at policy certainty, public-private partnerships and the combination of knowledge, skills and economies of scale.

Taking account of uncontrollable ESG risks and unexploited ESG opportunities

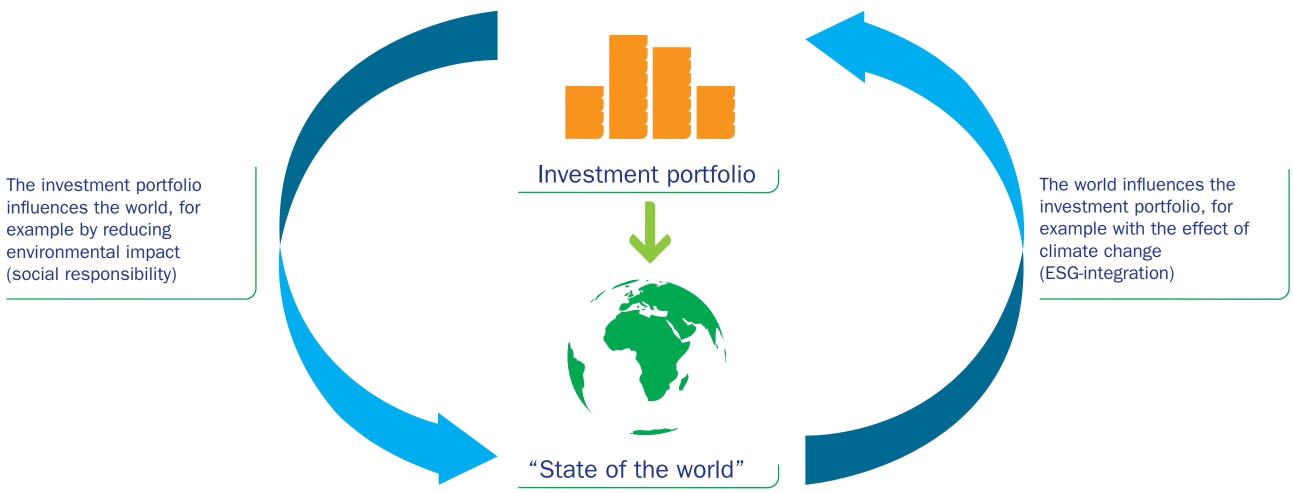
As well as integrating ESG factors in the current investment strategy, PGGM is investigating how ESG factors can be integrated in the allocation of assets among the various investment categories (investment plan).
This concerns the integration in and allocation among investment categories rather than integration in existing investment processes. This project shows whether all ESG risks can be mitigated and opportunities exploited in the current investment mandates, since a mandate limits the investment possibilities within an investment category. That means sustainability opportunities may be missed or risks may not be controlled. In the first instance the aim is to highlight differences between what is possible in an investment category and what happens in an investment mandate in the field of ESG risks and opportunities. Once the methodology has been fully developed, this insight can be incorporated in our clients' investment plans.

1. Investment processes

Environmental, social and corporate governance factors affect our clients' investment returns and risks. Conversely, the investments have an effect on the world. PGGM therefore takes account of these factors in its investment choices. That is not only good risk management but also ensures that we achieve a financial return that can also lead to sustainable improvements.

From both perspectives, the effect on investment return and the effect on the world, we take ESG factors into account in the investment decisions. Rather than using specific themes, we determine the material ESG factors for each investment process and/or decision. In doing so, we make use of knowledge gained from engagement projects and previous investments and/or apply international sustainability standards, such as the UN Global Compact or IFC Performance Standards.

PGGM is working on a more structural incorporation of ESG factors. Some investment processes have progressed further than others, as can be seen in table 1.1. Every year PGGM assesses the integration of ESG factors in the investment processes of both internal and external investors. Managers are assessed annually in terms of their ESG policy and procedures. On this basis, additional requirements can be specified, depending on whether PGGM has sufficient capabilities and/or the extent to which ESG factors have already been structurally implemented in the investment process. This is part of the normal annual assessment of investment managers. The Managing Director Responsible Investment also forms part of the PGGM-wide Investment Committee in which investments are discussed. The Responsible Investment (RI) department supports the investment teams in formulating processes aimed at integrating ESG factors and identifying ESG risks and opportunities in individual investments. The investment teams are responsible for managing ESG risks and opportunities. In the case of four investment categories, Listed Real Estate, Private Real Estate, Private Equity and Infra-structure, the way in which they do this is published on the PGGM website.



Figuur 1.1 Effect of ESG factors

1.1 Investment risk and return

ESG integration means taking account of the effect of ESG factors such as water scarcity, climate change and a safe work environment on the investment risk and return. Specifically we define this as ‘the structural and systematic incorporation of material ESG factors in existing investment processes’. ‘Material ESG factors’ are those which have a significant impact on the underlying investment, for example by reducing risk or improving returns. To assess whether ESG factors are material for a specific investment we establish processes which form part of investment decisions. ESG factors thereby cease to be *ad hoc* and become an integral part of the investment process.

Table 1.1 shows that this does not apply to all investment processes and has not yet been implemented to the same extent for all relevant investment processes. The processes differ among the various investment categories. The risks in infrastructure investments differ, for example, from those of investments in hedge funds and therefore require a different process.

In 2009 PGGM initiated a project to integrate ESG factors in a more structured way so as to manage the associated risks more effectively and exploit opportunities. The approach comprises three phases in each investment category. Table 1.1 shows the status of each investment category at the end of 2012. The 2012 objective of initiating the investment phase for all investment categories was achieved.

Table 1.1 Status of ESG integration

Investment category*	ESG integration phases				
	1. Inventory	2. Implementation		3. Internalisation	
	ESG framework	Integration in investment decision	Monitoring and reporting tools	Continuous improvement	Investment category as % of AUM
Equities					
Beta equities					25.5%
Responsible equities					1.4%
Private equity					6.2%
Real Estate					
Listed real estate					6.2%
Private real estate					5.5%
Fixed-income securities					
Corporate bonds					3.3%
Emerging markets credits					0.8%
Emerging markets debt					3.7%
High-yield corporate bonds					2.8%
Structured credit					1.5%
Rates & Inflation**					26.9%
Cash					1.6%
Commodities					
Beta commodities					7.1%
Supplementary					
Infrastructure					2.2%
Real assets					0.6%
Insurance					1.1%
Hedge funds					2.8%
Trading & Execution					0%
Others					0.8%

* The investment categories were classified differently prior to 2012
** (including European government bonds)

Legend

■ started ■ completed/continuous (for phase 3) ■ Not applicable

Comments

Beta equities	Investments are made on basis of share index or quantitative model, no integration possible in individual investment decision.
Structured Credit	The CSR policy of the counterparty, the bank, is taken into account, but it is not possible to take account of ESG in the credit risk.
Rates & Inflation (including European government bonds)	These portfolios comprise interest rate swaps and a limited range of European government bonds. Adding ESG factors to the investment processes produces no added value.
Others	Includes portfolios which are being phased out.

Definitions of process	
ESG framework	In this phase an ESG framework is drawn up for each investment category. We examine and record which, and to what extent, environmental, social and corporate governance factors affect the financial performance of underlying investments.
Integration in investment decision	On the completion of the phase, it has been determined how financial ESG factors play a role in the investment selection. Elements of this are the development of policy or tools to assess external asset managers or incorporate ESG in valuation models.
Monitoring and reporting tools	On the completion of the phase, processes have been determined in which reporting requirements are specified and KPIs recorded and/or the ESG performances of the underlying investments are monitored, how frequently ESG is discussed with external managers. There are assessment criteria for external managers.
Continuous improvement	ESG factors are a natural part of the overall investment process. This means among other things that ESG factors play a part in the normal routine of the investment process, are periodically assessed and, if necessary, ESG processes are adapted. The Investment Committee assesses the ESG integration each year.
Not applicable	If the inventory phase shows that ESG cannot be integrated in a financially material way because ESG factors have no material financial effect on the investments, as may be the case with derivatives, the subsequent phases do not take place.

1.2 Social responsibility

Our investment decisions can also have an effect on the world. They can sustain or reduce certain types of corporate behaviour. For example, we endeavour to reduce environmental pollution or safeguard employment rights by means of engagement but also by making demands upon companies or funds in which we invest. Non-financial factors can also play a role in new or previous investment decisions. Social debates, ethical issues and the resulting reputation risks can be taken into account in investments. As well as integrating financially material ESG factors, PGGM takes these risks and opportunities into account as fully as possible in order to contribute to sustainable improvements.

1.3 Developments in 2012

The following five developments are examples of the ESG integration activities which we undertake and the dilemmas we encounter.

Private Equity and Infrastructure investments

As part of the ESG integration project, we worked on the development of two new responsible investment policy documents in 2012, the PGGM Responsible Investing in Private Equity Policy and the PGGM Responsible Investment Policy for Infrastructure. These are both investment categories in which PGGM can exert influence with a view to controlling ESG risks and exploiting ESG opportunities. The policy documents set out PGGM's vision and the ways in which we seek to reduce these risks and exploit opportunities. This vision largely comprises three elements. First, PGGM seeks to encourage companies, infrastructure managers and private equity funds to look beyond local legislation and reputation risks in the ESG field. Second, PGGM expects companies to pursue process optimisation, for example in order to reduce waste and energy consumption. A company can thereby achieve environmental and social improvements while at the same time generating better returns. Third, PGGM seeks to encourage these parties to develop innovative products and services in which economic growth and social progress are central. If a company or project is to remain in existence for the long term, it must satisfy the long-term demands of society. PGGM has published both policy documents in order to promote responsible investment/enterprise additionally among other private equity and infrastructure operators.

Mexican wind turbines

Commodity scarcities, climate change and pollution pose threats to a secure energy supply. PGGM wishes to play a part in resolving these threats and to that end invests worldwide in sustainable energy.

PGGM has also found, however, that sustainable investments entail risks which cannot be foreseen when the investment decision is taken and which can put substantial pressure on financial returns. In 2012, PGGM invested in Mareña Renovables, a wind farm in Mexico. This project is making an important contribution to the development of sustainable energy in Mexico. It nevertheless had to contend with social and political opposition which did not go unnoticed in the media, including in the Netherlands. Despite major efforts on the part of Mareña to convince the local population and activists of the positive contribution the project will make to sustainable energy supplies in Mexico and the well-being of the local population, the construction of the project had incurred costly delays by the time of publication of this annual report. PGGM will therefore continue to monitor the situation closely in 2013.

Food speculation

Following the 2011 Dutch television broadcast entitled 'Handel in honger' ('Trading in Hunger'), we conducted various discussions with social organisations concerning investments in food derivatives in 2012. The discussions have not yet caused us to change our position. We do not believe it has so far been demonstrated that our investments in agricultural commodities contribute to higher food prices in agricultural commodity futures markets. However, the consultations have not yet been concluded. We will continue the discussions in 2013 on the basis of jointly formulated questions and will consult external experts. We aim to conclude the discussions in 2013.

Investments in factory farming outside the Netherlands

Factory farms and the associated intensive rearing methods (including fast-bred broiler chickens) are part of a social debate in the Netherlands. This debate is also of relevance to PGGM, because MHP, a major Ukrainian poultry producer, was in the news at the end of 2012. PGGM has granted a bond loan to this company.
The debate concerning factory farming is a complex one. Scientists state that factory farms can have a more positive impact on the environment and surrounding communities than organic farms, for example. Organic farming gives greater prominence to animal welfare.
On the other hand, poultry meat from intensive farms is cheaper due to more efficient production. The factory farming debate is all the more complex in that it concerns not just one company but a whole industry. Food companies in which PGGM invests, such as Tyson Foods of the United States, the Charoen Pokphand Group of Thailand and Brasil Food of Brazil also operate in the food chain that includes factory farming methods. Moreover, supermarkets and fast food restaurants also sell products containing fast-bred broiler chicken.
The financial industry as a whole can exert influence, for example by charging higher interest on loans to these companies, but that will not yet solve the dilemma of cheap and efficiently produced chicken compared to meat produced using animal-friendly methods.

PGGM has no specific policy on animal welfare, but believes it is important to respect animal welfare standards in the food chain, not only on ethical grounds but also in terms of investment risk and opportunity. Animal welfare can be taken into account in investment decisions where it is a material factor. Attention can also be focused on this subject through voting at shareholder meetings and engaging with these companies with regard to their conduct.

ESG index investments

We took steps to increase the degree of responsibility in the passively managed (index) equity portfolio in 2012. PGGM has developed its own ESG index based on the FTSE All World index. The risk-return profile of the ESG index is similar to that of the FTSE All World index.
The ESG index model selects the top 90 companies in

each sector from the FTSE All World universe based on a model developed by PGGM with a broad set of ESG indicators reflecting the priorities of PGGM's clients. This means we divest shareholdings in companies which score relatively poorly in their sector for environmental aspects, social policy and corporate governance. PGGM sells the shares of ten per cent of the over 2,800 companies which make up the FTSE All World index or places the companies concerned on a watchlist. Companies are placed on a watchlist if PGGM's interest in the company's shares exceeds €10 million or 0.2% of the company. The companies on this watchlist remain provisionally in the share portfolio and are written to. After responses have been received, PGGM begins engagement projects with these companies, with the aim of returning them to the top 90%. If a company fails to respond or responds insufficiently, it can be removed from the index within a year. A company can stay on the watchlist for a maximum of two years in succession.

The ESG index gives our clients a clearer idea of what they are investing in. It also enables PGGM to prioritise its engagement activities more effectively and anticipate potential reputation risks in the equity portfolio. PGGM uses the ESG index to assess the ESG performances of companies and thereby demonstrates that this is also possible in a passively managed equity portfolio. PGGM does not claim to have removed all poorly performing companies from the portfolio in this way, since the ESG index model is a relative analysis based on a broad set of ESG indicators. The index as a whole can still include companies which perform poorly with regard to individual or broad ESG indicators (such as serious environmental pollution). The ESG index is therefore an instrument used in combination with engagement activities and exclusions.

1.4 Outlook

Having regard to the increasing number of direct investments in the Infrastructure and Private Equity portfolio, we will strengthen the Responsible Investment department's role in advising the investment teams in the field of ESG in 2013. We will also continue to develop tools and reporting standards across the entire investment portfolio during the year in order to move investment processes on to the next phase. These will help us and our external managers to mitigate ESG risks and exploit eco-efficiencies such as lower energy consumption and will also deliver innovative, sustainable products.

ESG integration

Results and targets of key performance indicators (at year-end)	Actual result 2011	Target* 2012	Actual result 2012	Target* 2013
Completed in phase 1 Inventory (as % of total assets under management)	100%		n/a	
Started in phase 2 Implementation (as % of relevant investment categories)**	80%	100%	100%	n/a

* Note: no targets are applicable for some components. These components have been included in this table to show the results of the various responsible investment activities.

** See table 1.1 for the investment categories in which phase 2 is relevant.

2. Targeted ESG investments

Targeted ESG investments are investments which not only contribute financially to the return for clients but are also intended to generate social added value. Our clients thus contribute to the sustainable resolution of social problems around the world. Examples are investments in clean technology, sustainable energy and investments which help combat poverty.

2.1 Developments in 2012

Refined definition

A refined definition of targeted ESG investments was introduced in 2012. We previously spoke of investments which generated a social return without specifying this in detail. Through its targeted ESG investments, PGGM seeks to address major social themes, such as climate change, commodity scarcity and global poverty.
PGGM therefore now defines targeted ESG investments as those which fit in with the regular financial criteria and are intended to generate social added value. PGGM will measure and monitor the expected and actual social added value which these investments generate. When deciding on targeted ESG investments we also look into side effects of investments which could have a negative social impact or give rise to a social debate. This may be a reason not to designate a specific investment as a targeted ESG investment or to impose a requirement that the negative impact be significantly reduced.

PGGM has defined social added value as the value which results from the resolution and/or reduction of social, socioeconomic and environmental challenges. The value is measured in terms of the impact of the products or projects. The added value of products can result from the value chain, the product itself or the use of the product. For example, the social added value of coffee lies in the use of sustainable, fair-trade production methods, which help reduce poverty. A precondition is that we are able to assess the added value. ESG improvements in processes may be part of the aim, but they are not a sufficient precondition for designation as a targeted ESG investment. An example is the reduction of CO_2 emissions by an oil refinery. Although this generates a social return, the end-product – oil – still causes environmental damage. The methodology which PGGM developed with the Erasmus Centre for Strategic Philanthropy (ECSP) at Erasmus University Rotterdam is the starting point for measuring the actual or expected social added value of targeted ESG investments.

All targeted ESG investments were assessed on the basis of the tighter definition in 2012. An investment falling within the Structured Credit mandate does not meet the new definition. In such investments one of our clients shares the credit risk on a portfolio of project finance in areas such as alternative energy. The social added value cannot be measured, however, because the structure of the investment prevents us from measuring each individual project finance transaction. There were also mandates which had not yet tested the targeted ESG label against the new definition. This resulted in nine further mandates receiving the targeted ESG investment label in 2012. These included agricultural investments, a wind farm, microfinance and cleantech funds.
The targeted ESG investments are shown in table 2.1.

The objective for 2012 was to raise the level of targeted ESG investments to €5.2 billion of committed assets. The actual total was €4.2 billion. The number of targeted ESG mandates did nevertheless increase, as shown in table 2.1. The decrease in the total volume of targeted ESG investments was mainly due to the departure of the head of department and four colleagues from the Responsible Equity Portfolio. This led to a temporary reduction in part of this investment portfolio pending a new appointment and an assessment of the portfolio.

In the case of RaboFarm and the Conservation Forestry Fund, measurement of the social added value began in 2012. In the years ahead we will measure the added values of other funds and report on movements in the values.

Table 2.1 Targeted ESG investments

Mandate or investment portfolio	Investment category	Description
Hg Renewable Power Fund	Infrastructure	The fund invests in sustainable energy projects and companies in Europe.
Triodos Ampere Fund	Infrastructure	The fund invests in sustainable energy projects in Europe.
BNP Clean Energy	Infrastructure	The fund invests in sustainable energy projects in Europe.
Dong Energy/ Walney	Infrastructure	This investment concerns an offshore wind farm in the Irish Sea.
Marena Renovables*	Infrastructure	This investment concerns an onshore wind farm in Mexico.
GMEF	Microfinance	The fund invests through funds in the equity of local banks - microfinance institutions (MFIs) - in emerging markets.
SIMF I & II*	Microfinance	The fund invests in the equity and debt capital of local banks - microfinance institutions (MFIs) - in emerging markets.
Albright Capital Management	Private Equity	ACM invests in (public and private) equities, bonds, loans, currencies and currency derivatives, interest rate swaps and credit derivatives in emerging markets. The fund uses political analyses and local expertise of the Albright Stonebridge Group.
Alpinvest Clean Tech PE	Private Equity	AlpInvest invests worldwide in private equity funds which focus particularly on activities and technologies which improve the sustainable and efficient use of natural resources and reduce the ecological impact.
IFC African, Latin American and Caribbean Fund	Private Equity	The fund co-invests with IFC in a range of sectors in Sub-Saharan Africa, Latin America and the Caribbean.
Black River Food Fund*	Private Equity	The fund invests in private capital in the food sector, principally in Asia. Black River selects companies in the following sectors: i) food production (such as milk, chicken, fish), ii) food processing (e.g. baby milk powder), iii) the logistics sector, particularly ‘cold’ logistics such as the transportation of chilled and frozen products.
Tsing Capital*	Private Equity	The fund focuses on cleantech and environmental investments in China.
VenturEast Life Fund III LLC*	Private Equity	VenturEast invests in small and medium-sized companies in the Indian ‘Life Sciences’ sector. It offers these companies growth capital and knowledge to stimulate their continued development.
Climate Change Capital	Real Assets	The strategy is to earn carbon credits by investing in clean technology in developing countries and to sell these carbon credits forward on CO2 exchanges.
GMO/Renewable Resources	Real Assets	GMO invests in forestry worldwide by directly or indirectly purchasing land with forestry resources or land on which trees can subsequently be planted. The main fundamental source of return is the growth of trees and the sale of wood.
Conservation Forestry Fund II-B	Real Assets	Conservation Forestry invests in forestry in the United States. In this investment institutional funds are combined with funds from nature conservation organisations. The main fundamental source of return is the growth of trees and the sale of wood.

Mandate or investment portfolio	Investment category	Description
RaboFarm*	Real Assets	The fund focuses on the purchase of agricultural land in Eastern Europe. The land is leased to operational partners who produce for worldwide markets.
BlackRiver*	Real Assets	The fund invests worldwide in agricultural land and operational agriculture activities.
Adecoagro*	Real Assets	Adecoagro operates in the production of food and renewable energy in South America. In Argentina, Brazil and Uruguay, the main activities are the production of grain, rice, oilseeds, dairy products, sugar, ethanol, coffee and cotton.
NCH*	Real Assets	The fund focuses on the purchasing and/or leasing and subsequent exploitation of agricultural land particularly in Ukraine and Russia. The consolidation of small plots of land and the use of modern agricultural techniques allow relatively cheap production for worldwide markets.
Triodos	Strategic relations	Triodos Bank is one of the most sustainable banks in the world. Its mission is to make money work for positive social, ecological and cultural changes.
REP	REP	Investments are made under this mandate in stable, profitable, listed companies which are strongly positioned in terms of ESG (Environment, Social & Governance) factors. The investment universe comprises European countries and North America.

* These investments were added to the list of targeted ESG investments after the review. The total of new targeted ESG investments is 747 m.

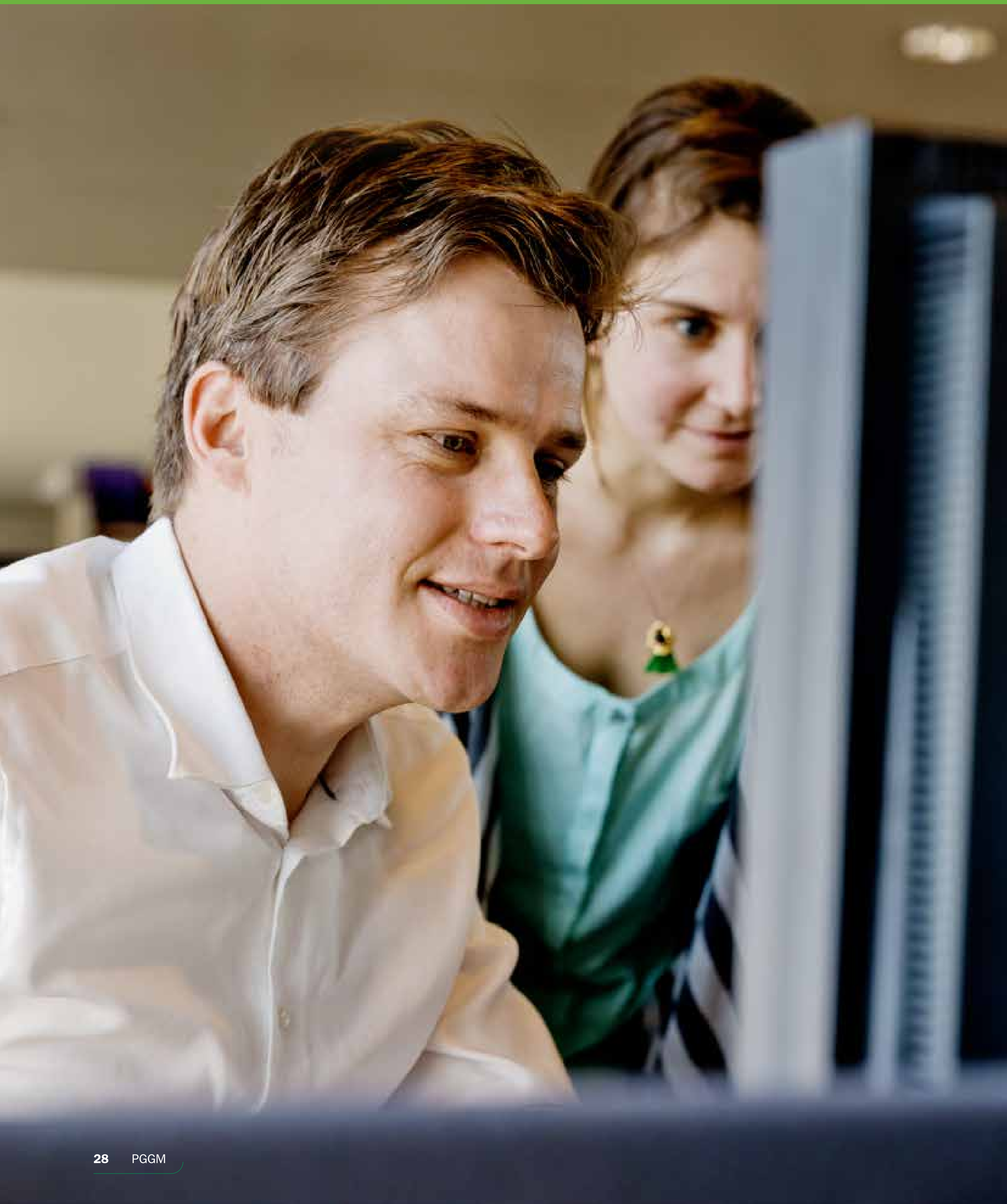
2.2 Outlook

It can sometimes happen that we make a prior assessment that an investment will generate social added value, but that it is subsequently called into question. Examples are our investments in Mareña Renovables (see page 22) and Climate Change Capital, due to fraud surrounding carbon credits. PGGM has nevertheless decided to manage these investments under the targeted ESG investment label. The initial intention of generating a social return in addition to the financial return has not changed. These investments do nevertheless highlight the dilemmas that can also arise with this type of investment. If we were to remove these investments, we would deprive ourselves of the lessons we could draw, and transparency concerning these investments would diminish. When assessing all targeted ESG investments we therefore look at issues which may give rise to a social debate. These form part of the dialogue which we conduct, for example with external managers.

From 2013 investments will no longer be designated retrospectively as targeted ESG, only in advance. The internal processes have been adapted for this purpose. PGGM will again seek new targeted ESG investments in all investment categories in 2013.

Targeted ESG investments

Results and targets of key performance indicators (at year-end)	Actual result 2011	Target 2012	Actual result 2012	Target 2013
Volume of targeted ESG investments/commitments (€ million)	4,730	≥ 5,200	4,219	
New targeted ESG investments/commitments (€ million)			747 new	≥ 500 new



3. Voting

The voting right is one of the most important rights a shareholder has. We therefore vote on the basis of our own judgement at shareholder meetings. In this way we contribute to good corporate governance. We also devote attention to resolutions in the environmental and social fields.

We are convinced that co-determination, in both the short and long term, contributes to the creation of shareholder value. High attendance at shareholder 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 active and informed voting to be an important activity for responsible investors. This view is endorsed by the Dutch Corporate Governance Code. The Listed Equity Ownership Policy (LEOP) forms the basis of our voting policy.

3.1 Voting policy

PGGM has tailor-made voting guidelines, the PGGM Investments Global Voting Guidelines, which are updated annually. As far as possible these specify how PGGM will vote on a large number of subjects that are liable to arise on the agendas of shareholder meetings. The vote we actually cast on resolutions at shareholder meetings and the grounds on which we vote against the management on a particular agenda item are posted on our website.

PGGM's objective is to vote on all shares of all companies in the portfolio, although voting at all meetings is not always possible. Voting in blocking markets is excessively complex for investors. Blocking markets are those in which share trading is blocked for a certain period if an investor uses his voting right. PGGM also lends shares, partly to generate the associated fee income. A lender is unable to use the voting right when shares are lent. Finally, errors may occur in the voting chain, making it impossible to cast votes.

PGGM's Voting Focus List contains a number of companies meeting specific criteria. These companies' shares are not lent around the time of shareholder meetings. This also applies in particular cases to companies which are not on the Voting Focus List. In the case of companies on the Voting Focus List which are based in blocking markets, we vote in respect of the entire position on the basis of our own judgement, even if this leads to the blocking of the shares.

3.2 2012 voting figures

General voting information

In 2012 PGGM voted at 3,106 shareholder meetings on a total of 33,276 agenda items. We voted in favour of the resolution in 26,358 cases and against in 6,198 cases. We abstained on 720 agenda items. The number of votes cast against the resolution amounted to 18.6% of all the votes we cast. That represents a rise compared to 2011. 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 can rarely determine the outcome of the vote.

In 2012 we attended seven shareholder meetings in the Netherlands. PGGM also attended two meetings of trust offices (Unilever and ING). We were represented by another investor on two occasions and voted by proxy at all other meetings in 2012. PGGM only attends a limited number of AGMs. We only choose to be represented in person if there are agenda items on which we wish to explain our position during the meeting. We may also require more information on the management's reasoning and position. In the Netherlands we usually do that ourselves, whereas outside the Netherlands we can arrange to be represented by third parties where relevant.

A total of 124 meetings took place in blocking markets in 2012. In accordance with our policy we did not vote at these meetings. We refrained from voting at eight meetings due to a lack of ballots, incorrectly lent positions or other reasons. These cases involve deficiencies which we endeavour to minimise by monitoring the process. The number has been halved compared to 2011. In 2012 we voted at 99.7% of all annual and extraordinary general meetings of shareholders. The target of voting at more than 95% of meetings was therefore achieved.

The bulk of the agenda items on which we voted in 2012 were proposed by the boards of the companies concerned. This was the case in 96.4% of all agenda items. Resolutions were proposed by shareholders themselves in relatively few cases, amounting to only 3.6% of agenda items.

Voting Focus List

PGGM votes actively and on the basis of its own judgement at meetings of companies on the Voting Focus List. The Voting Focus List comprised a total of 72 listed companies in 2012. When this list was drawn up, these companies represented 12% of the total value of all listed investments. In the case of companies on the Voting Focus List, PGGM voted at 100% of all meetings in 2012. PGGM also votes manually and on the basis of its own judgement in respect of over 50% of the assets under management in listed equities.

Voting instructions

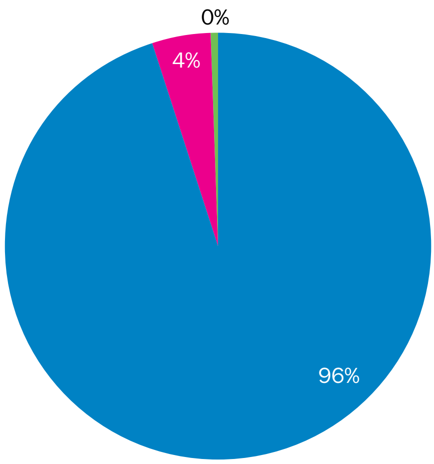
The voting instruction breakdown chart shows that we voted in favour of almost 80% of resolutions. However, this says nothing about the underlying intention of our voting instructions. The charts explaining our voting behaviour show whether we voted in line with the management recommendation. On average we voted contrary to the management recommendation in 20% of resolutions, and on those items we stated our disagreement with the management. In the case of resolutions on environmental and health matters, the figure was even around 50% of voting instructions in 2012. These percentages show that PGGM does not automatically follow the recommendations of the companies, but makes its own assessment.

When voting in companies which are not on our Voting Focus List, we use the voting service provider ISS. The votes cast by ISS are based on our own voting policy. On more than 11% of agenda items, PGGM issued voting instructions at variance with the recommendation made by ISS on the basis of its policy. The figure illustrates that PGGM makes its own assessments. It is very likely that this figure would be higher in practice, since there are generally only three voting options (for, against or abstention), and even if PGGM does make a different assessment, it may still vote in line with the standard ISS voting recommendation.

Explanation of voting charts

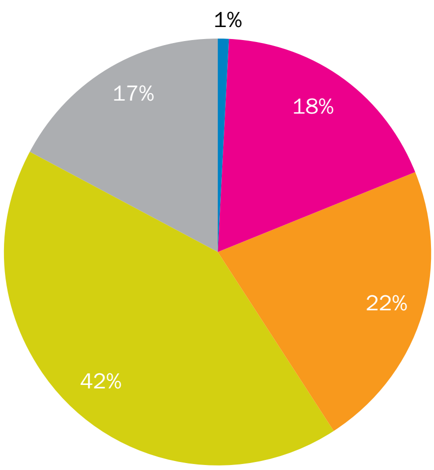
The voting charts in this chapter provide more information and a more detailed explanation of the breakdown of our voting. The charts detail the number of meetings at which votes were cast, the breakdown into regions in which we cast votes, the subjects of the management and shareholder resolutions, the breakdown of voting instructions and our own voting behaviour.

Shareholder meetings in 2012



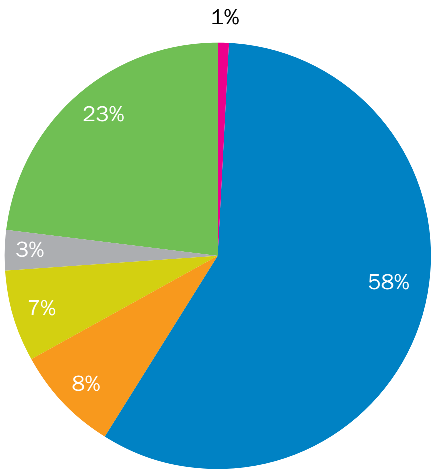
	3,106	Votes cast
	124	No votes cast due to blocking
	8	No votes cast for other reasons
Total	**3,238**	

Breakdown of shareholder meetings by region in 2012



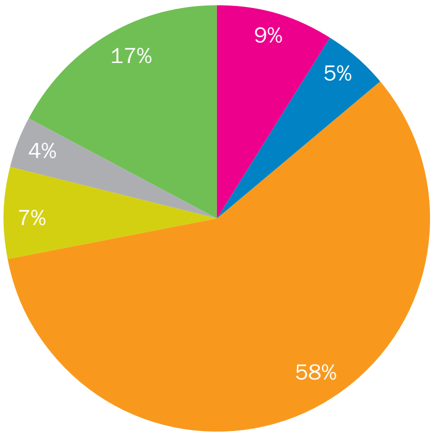
	36	Netherlands
	559	Europe (excl. Netherlands)
	668	North America
	1,304	Asia
	539	Rest of the world
Total	**3,106**	

Breakdown of management resolutions in 2012 (by category)



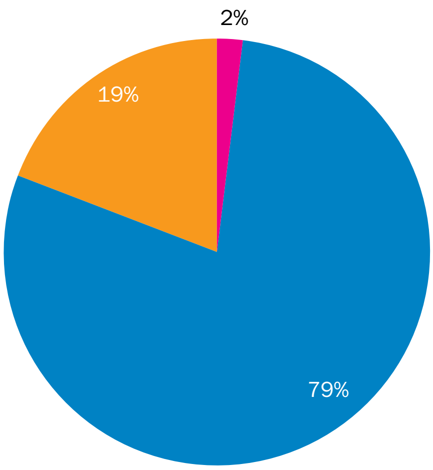
	235	Anti-takeover-related
	18,491	Director-related
	2,481	Capitalisation
	2,422	Remuneration
	1,064	Mergers and acquisitions
	7,396	Other
Total	**32,089**	

Breakdown of shareholder resolutions in 2012 (by category)



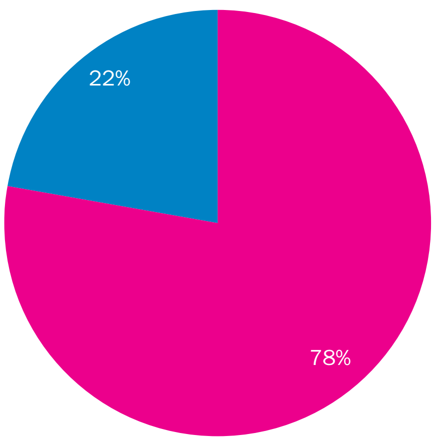
	108	Remuneration
	56	Corporate Governance
	693	Director-related
	78	Health and environment
	46	Social conditions
	206	Other
Total	**1,187**	

Breakdown of voting instructions in 2012



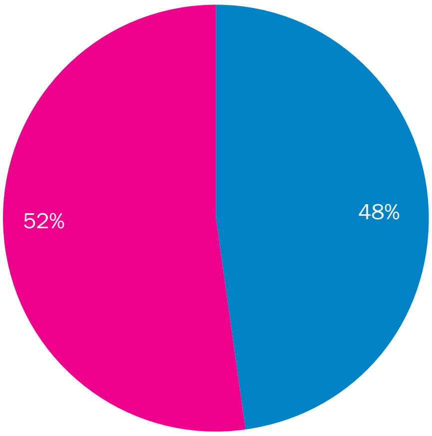
	26,358	For
	6,198	Against
	720	Abstention
Total	**33,276**	

Breakdown of voting behaviour by agenda items in 2012



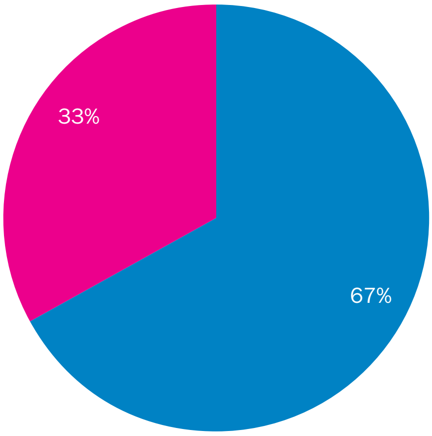
	26,090	Votes on agenda items in line with management recommendation
	7,186	Votes on agenda items management recommendation
Total	**33,276**	

Breakdown of voting behaviour on Environment & Health in 2012



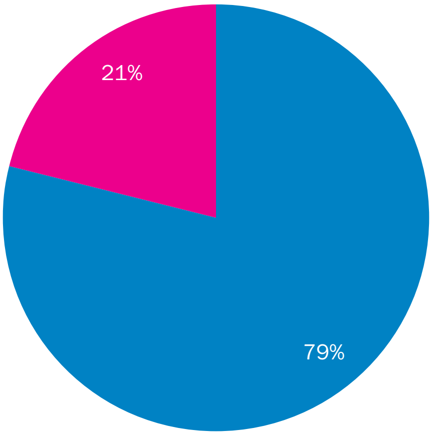
	41	Number of votes in favour of management recommendation
	45	Number of votes against management recommendation (including abstentions)
Total	**86**	

Breakdown of voting behaviour on Social conditions in 2012



	36	Number of votes in favour of management recommendation
	18	Number of votes against management recommendation (including abstentions)
Total	**54**	

Breakdown of voting behaviour on Corporate Governance in 2012



	26,013	Number of votes in favour of management recommendation
	7,123	Number of votes against management recommendation (including abstentions)
Total	**33,136**	

3.3 Developments in 2012: shareholder resolutions and agenda items

Shareholder resolutions vary enormously in terms of their subject matter and quality. In 2012 PGGM voted on matters such as transparency in political donations, but shareholder resolutions were also submitted on the existence of Japanese toilets at the offices of a Japanese company at which we voted. We consider that to be a resolution of no relevance to most shareholders. One of the main subjects arising on agendas is net neutrality.

Shareholder resolution on net neutrality

Resolutions concerning net neutrality were considered at shareholder meetings of three telephone companies in the United States (AT&T, Sprint Nextel and Verizon) during the year. Net neutrality concerns the accessibility of the internet and the role played by internet service providers. The shareholder resolution called on these companies to make a public commitment to guarantee net neutrality for mobile internet access in all circumstances. PGGM endorses the importance of a free and open internet. In emergency situations, however, we consider some restrictions to be appropriate. Internet service providers must be able to restrict mobile internet access in the event of a disaster, if necessary, in order to make the network available to the emergency services. Such a possibility exists in the United States for standard cable internet, and we believe the same should apply to mobile internet services. However, the shareholder resolution did not provide for any such exception for emergency situations and called for unconditional access. Therefore, although PGGM supports the resolution in principle, we abstained on the basis that it was incomplete. In all cases these resolutions failed to win the support of a majority of shareholders (AT&T 6% in favour, Sprint Nextel 3% and Verizon 8%).

Increasing pressure on pay

Resolutions submitted by the management generally win a majority of votes. There are some exceptions, however, and that is increasingly true of executive pay. Investors are looking ever more critically at the pay of executives in the companies in which they invest. This trend was clearly evident again in 2012. Whereas in the past there was still some resistance, without major consequences for the company, the opposition has now become so strong that some people are already talking of a ‘shareholder spring’ (or even revolution). There is considerable shareholder dissatisfaction with pay resolutions proposed by financial institutions, for example. In some cases this has led to a majority of votes being cast against them, in both the United States and Europe.

A majority of shareholders voted against the pay resolution proposed by Citigroup due to the high level of variable pay awarded to the CEO despite a disappointing performance by the company. Citigroup is so far the largest company in which shareholders have rejected a pay resolution. The discrepancy between pay and performance has also led to votes against pay resolutions outside the United States. In the case of the insurer Aviva in the United Kingdom, the voting down of the remuneration report even triggered the resignation of the CEO. Simon Property Group in the United States, one of the world’s largest real-estate funds, witnessed an unprecedented move, certainly by American standards. Simon Property has performed well in recent years compared to the sector as a whole, in terms of both results and share price. The company therefore decided to award its CEO a bonus of one million shares (worth $120 million at the time of the award) in stages over a period of eight years. This remuneration was not subject to any other conditions. Whereas US investors normally raise no objection to remuneration if a company has performed well, in this case over 70% of votes were cast against the pay resolution. PGGM voted against all the above pay resolutions (and others), because we believe the pay structure should reward performance, with an emphasis on the long term. In our view, excessive pay that is not linked to the company’s performance can potentially undermine the long-term interests of the company and its stakeholders. Through its voting behaviour and engagement with the companies, PGGM will address such problems and thereby contribute to a solution.

Incident with voting adviser

Most of the voting instructions which PGGM issues each year are electronic. This is an efficient, practical and economical alternative to attending meetings or sending signed fax instructions. However, the system stands or falls on the trust we have in the party carrying out the voting instructions. For a brief period in 2012, this trust came under pressure. It emerged in the first quarter of 2012 that information on voting instructions for shareholder meetings had been sold to third parties by an employee of one of PGGM’s voting advisers. Further investigations revealed that this employee had no access to PGGM’s voting instructions. We expect all our service providers to have procedures in place to curb abuse of confidential data to the maximum extent possible. PGGM discussed this matter urgently with its voting adviser and voiced its concerns. Our voting adviser has further improved its procedures in response to this incident and pressure from organisations such as PGGM, partly by voluntarily registering as a Registered Investment Advisor, which means it will be regulated by the Securities and Exchange Commission (the US regulator).

Focus on environmental and social resolutions: shale gas extraction

We are informed of agenda items concerning ESG factors on a weekly basis. We devote additional attention to these resolutions. In determining our voting choice, we carefully assess the possible impact of these ESG factors on long-term value creation, the continuity of the company's activities and the company's ESG performance.

Resolutions in the environmental and social field often concern current issues which have a direct impact on people's lives and living environment. During the year under review, for example, a number of shareholder resolutions were submitted on shale gas. We are seeing a trend whereby oil and gas extraction is becoming increasingly complex and consequently possibly riskier for the environment and local inhabitants. Shale gas extraction is a clear example of this. Shale gas is extracted by drilling horizontally into rocks very deep in the ground and blasting them with water, sand and chemicals under high pressure. That is necessary because of the difficulty of penetrating the rock layer from which the gas is to be released. As the drilling does not take place in a large gas field, shale gas extraction involves a relatively large amount of drilling. In the United States, we are also seeing gas extraction increasingly taking place in densely populated areas. That makes it even more necessary to control the risk and prevent transport and drilling activities causing a nuisance to local inhabitants.

Shareholders had submitted resolutions at meetings of a number of oil and gas companies calling for a clearer statement of the risks associated with their shale gas extraction. PGGM supported all these resolutions, but none of them secured a majority of votes.

Voting as the conclusion of engagement

Voting and engagement are inextricably linked at PGGM. For example, the agenda for a shareholder meeting can provide grounds for initiating an engagement process with a company (both before and after the meeting). We can also reinforce our engagement objectives by voting in line with these objectives. A good example of this combination occurred in Taiwan in 2012. A company in which we combine voting and engagement activities is President Chain Store (PCS), the largest retailer in Taiwan and one known particularly for the 7-Eleven formula. Prior to the 2012 AGM, we engaged in discussions with PCS on a number of corporate governance matters. We asked PCS to appoint at least three independent non-executive directors, who would then also sit in a newly formed audit committee. The role of an audit committee is to examine a company's financial figures. The independence of the committee members is intended to ensure proper and appropriate supervision of the management. Finally, we also engaged in discussions with PCS on the voluntary counting of all votes (voting by poll) at the meeting.

We believe this is important because it increases the transparency and verifiability of the voting and the voting process. It is also an important part of maintaining verifiability over time along the entire international voting chain, from shareholder through various national and international service providers to the AGM, by means of vote confirmations.

The consultations we conducted with the CFO at the end of 2011 were ultimately of particular importance. She had been tasked with organising the 2012 AGM, and it was partly thanks to her effort that our corporate governance improvement resolutions were included on the agenda. The PCS board agreed to our request to nominate independent non-executive directors at the 2012 AGM. Even before the articles of association had been amended to allow these directors to join the board, PCS sought and found suitable candidates for these posts. PCS also placed the amendment of the articles of association required to establish a new audit committee on the agenda for the 2012 AGM. This was formalised at the AGM in June 2012 and PCS now has three independent non-executive directors and an audit committee. Finally, PCS decided that electronic voting would be introduced at the next AGM and that all votes cast at the meeting would also be counted and published in detail on the PCS website.

PGGM naturally voted in favour of all these corporate governance improvements on the agenda. And because a majority of PCS shareholders did likewise, our three engagement aims for this AGM were achieved. The voting therefore marked a successful culmination of our engagement and PCS has joined a growing number of Taiwanese companies making voluntary corporate governance improvements with the encouragement of their national and international shareholders. PCS is thus an example for other companies in Taiwan and we can encourage other Taiwanese companies to follow this example.

3.4 Outlook

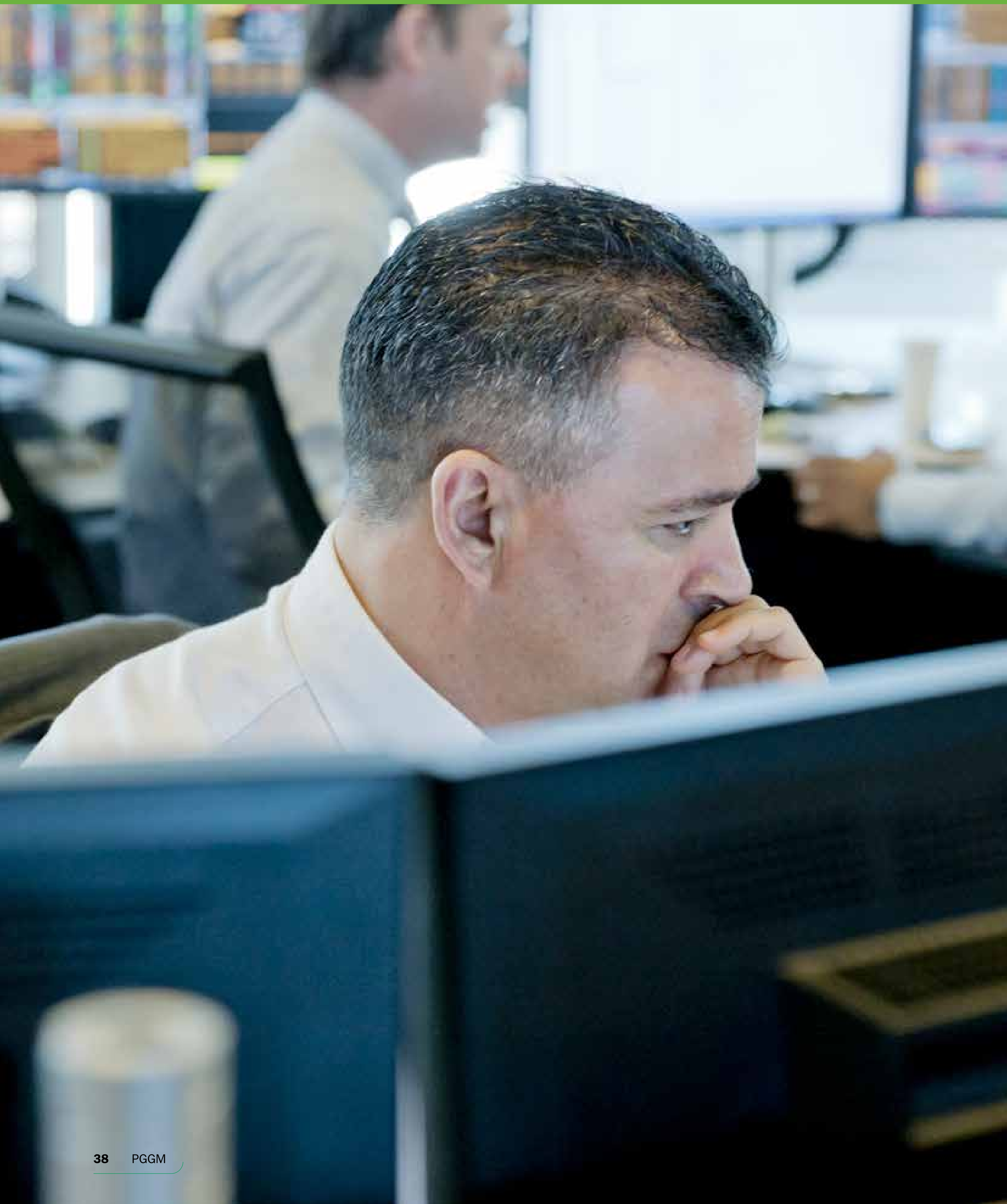
The 2013 Voting Focus List comprises 85 companies (2012: 72 companies). In 2013 PGGM will again make contact before the meeting with a number of companies on the Voting Focus List which we have written to in the past in connection with a vote against the management's recommendation, because these have provided points of departure for engagement. In addition, as in 2012, we will vote internally, actively and in an informed way on more than 50% of assets under management with a view to further increasing the quality of our voting activities and creating more scope to respond to particular situations.

Voting

Results and targets of key performance indicators (at year-end)	Actual result 2011	Target* 2012	Actual result 2012	Target* 2013
Number of shareholder meetings (AGMs) at which votes were cast*	3,224		3,106	
Number of votes cast	33,832		33,276	
Number of AGMs at which votes were cast as % of total number of AGMs***	99.5%	≥ 98%	99.7%	≥ 98%
Number of AGMs at which votes were cast as % of Voting Focus List	99%	≥ 99%	100%	≥ 99%

* No targets are applicable for some of these components. These components have nevertheless been included in this table to show the results of the various responsible investment activities.

*** The target for 2013 and the actual result of 2012 consist of the number of voted meetings excluding blocking markets.



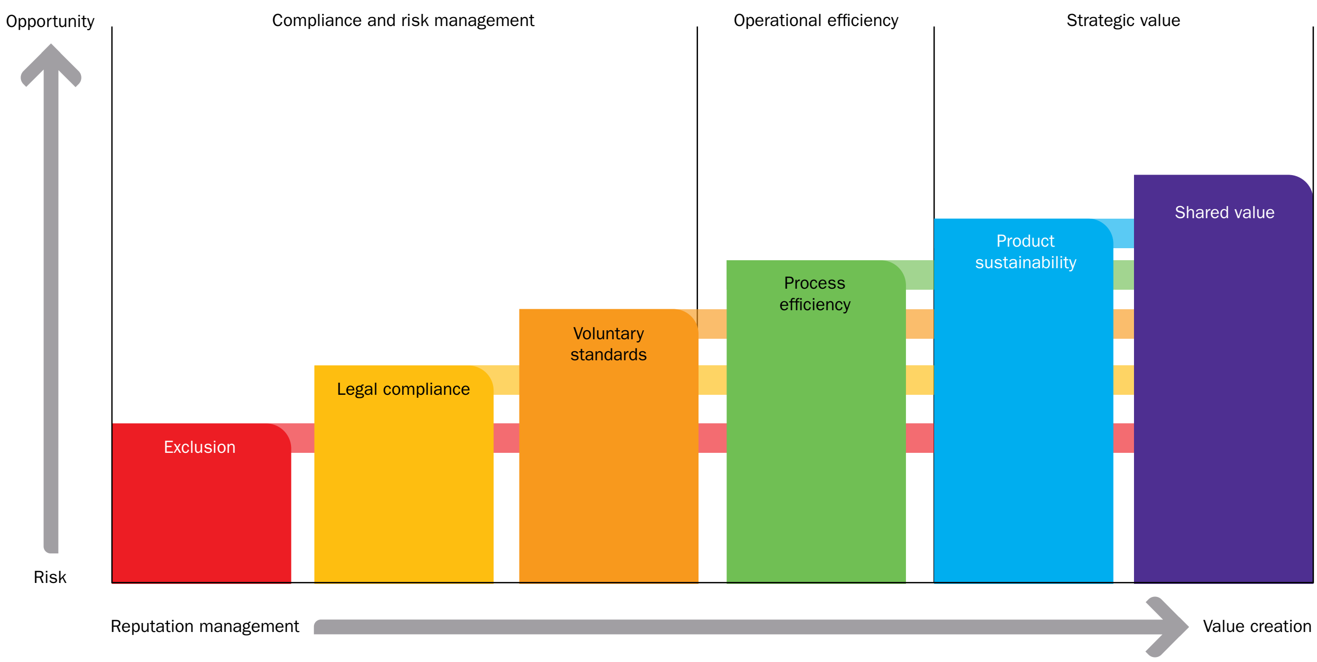
4. Engagement

As an investor we see it as our responsibility to talk to companies and market participants about their policy and activities. In this way we endeavour 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. We call this engagement.

We define engagement as the overall activities required to achieve ESG improvements in dialogue with companies and markets. We call on companies and market participants to make improvements in the ESG field. The sustainability stairway below outlines the possible growth from the control of risks to the creation of value. PGGM wishes to be a constructive partner for the company or market in which it invests. By means of our engagement our ultimate aim is to help create more financial and shared value.

Our engagement activities can be targeted towards a specific focal area, a sector or the companies within a sector. Our focal areas are health, human rights, climate change and good corporate governance. These were embedded in the Responsible Investment Policy in 2010 and were chosen because they are consistent with our clients and our identity. We also expect to be able to exert an influence within these focal areas. Although this approach helps to determine priorities, it may also have a limiting effect.

Figure 4.1 Sustainability stairway



For an effective dialogue with companies it is often useful to place several subjects on the agenda which are important in the context of the sector in which the company operates. The *Sustainability 3 x 3 matrix* shows which ESG factors we believe to be important.

4.1 2012 engagement figures

In 2012 we had contact with 746 companies as part of our engagement. In our engagement activities we often work with partners such as like-minded institutional investors and interest groups. We have also outsourced part of our engagement activities to the specialist British asset management company F&C. The companies with which we engaged achieved a total of 230 milestones.

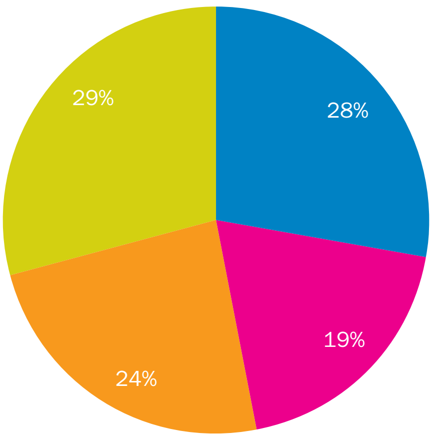
Milestones are specific steps taken by companies with the aim of ESG improvement. Our engagement activities and the milestones achieved are worldwide and cover the various subject areas (for a breakdown see the charts under the 'engagement figures' heading).

In addition to engagement focused on companies, we also seek a dialogue with market participants such as law makers and regulators. We also initiate and support initiatives aimed at raising standards on certain subjects and/or in certain sectors, for example by encouraging the endorsement of voluntary codes. In 2012 we had 19 engagement projects with market participants, including a large number of engagement projects targeted at corporate governance in specific countries.

Table 4.2 PGGM's Sustainability 3 x 3 matrix

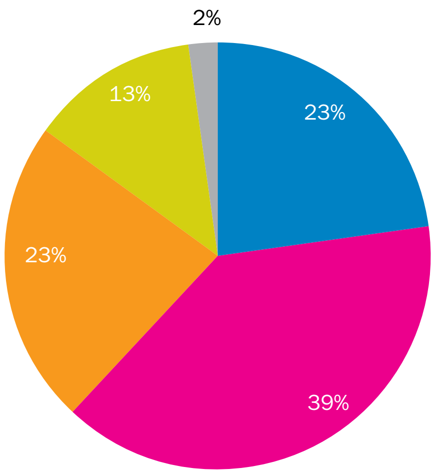
Environmental	Social	Corporate governance
A **stable climate** • By reducing greenhouse gases	**Respect for universal human rights** including ILO **labour rights.** • e.g. no child labour, trade union freedom	Adequate **shareholder rights** • e.g. voting, agendas, nomination of directors
Responsible use of **scarce raw materials** • e.g. efficient use of water and preservation of biodiversity	Adequate access to **basic requirements** • e.g. healthcare and nutrition	**Effective structure and management.** • e.g. independence of directors, strategy, remuneration, risk management
A clean and healthy **environment** • e.g. reduced waste and pollution, increased recycling	Local **socioeconomic development** • e.g. creation of employment, knowledge transfer	Proper **accountability** • e.g. publication and transparency, culture, anticorruption and bribery

Breakdown of company engagement activities by subject in 2012



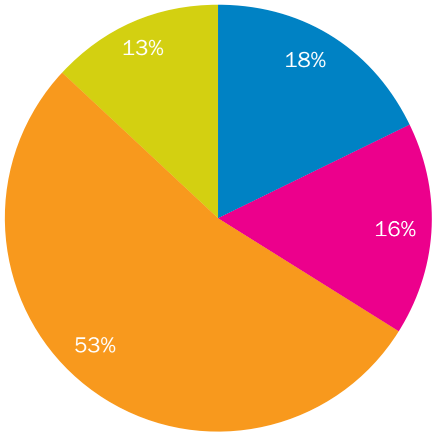
	434	Environment
	298	Social
	378	Governance
	453	Other
Total	1,563	

Geographic spread of company engagement activities in 2012



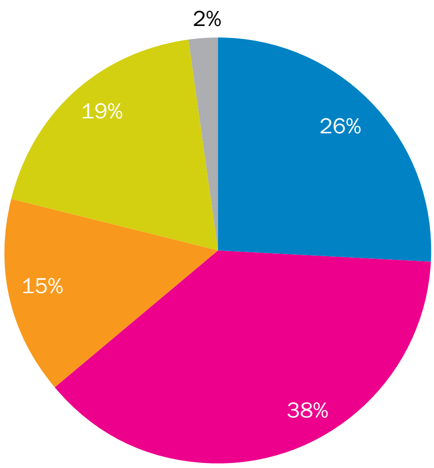
	173	Europe
	286	North America
	172	Asia
	93	Rest of the world
	18	Netherlands
Total	**742**	

Theme breakdown of milestones



	40	Environment
	35	Social
	120	Governance
	30	Other
Total	**225**	

Regional breakdown of milestones



	58	Europe
	85	North America
	34	Asia
	42	Rest of the world
	6	Netherlands
Total	**225**	

4.2 Corporate Governance

With regard to corporate governance we assess whether a company is managed well, efficiently and responsibly and whether it reports to its stakeholders, including shareholders, on the conduct of its policy.

Our main corporate governance themes in 2012 were:
- greater insight into risks and risk management
- explanation of nominations for appointment or reappointment of the external auditor;
- corporate governance code in the United States;
- the 'one share one vote' principle;
- independent directors;
- audit committees.

Corporate governance codes based on principles and executive best practice provisions give the parties a degree of organisational freedom, whereas laws and rules are usually mandatory.

Corporate governance code in the United States

In March, PGGM took part in a round-table discussion in New York on the possibilities of developing a corporate governance code in the United States. In Europe there is a consensus that corporate governance codes deliver major benefits and contribute to a meaningful dialogue between companies and shareholders, but such codes are not common in the United States. This meeting was a follow-up to the successful meeting which PGGM organised on the same subject in Zeist in 2011. PGGM founded this project jointly with the Millstein Center for Corporate Governance and Performance of Yale School of Management. We are collaborating on the project with other major participants such as TIAA CREF, Microsoft, Prudential and Deloitte.

During the round-table meeting in New York the draft of a US 'comply or explain' corporate governance code was discussed with representatives of major US parties, such as institutional investors, asset managers and companies. With this group we discussed whether corporate governance codes of the kind introduced in Europe could also work in practice in the United States, and what process should be initiated in order to establish a code in the United States. The parties at the meeting confirmed an interest in taking further steps towards the development of a corporate governance code.

The annual governance congress of Yale University took place in June, with further discussions on the possibility of a 'comply or explain' corporate governance code in the United States. At this congress we explained PGGM's belief that all parties could benefit from such a best practice code. The reactions of those present were largely positive with regard to the possible introduction of such a code.

4.3 Social

Companies' respect for human rights is a major part of our engagement programme in the social field. On the human rights and health theme, PGGM devoted particular attention to the following key points in 2012:
- companies involved in violations of human rights (including labour rights);
- companies operating in high-risk areas, for example as a result of a conflict or the presence of a repressive regime;
- implementation of UN Guiding Principles on Business and Human Rights;
- access to medicines.

Labour rights: stalled dialogue with Walmart

A large part of our engagement activities with companies in the human rights field concerns respect for employees' fundamental rights. These concern the outlawing of child labour and forced labour and among other things guarantee employees' rights to join a trade union in order to negotiate on their employment conditions and suffer no discrimination. In addition to the obligation to comply with the law, proper treatment of workers is an important element in the quality of the services and/or products a company supplies. A good example of our engagement activities in this field is the dialogue with Walmart.

PGGM has been in dialogue with Walmart for a number of years concerning non-compliance or poor compliance with national employment legislation in its home market.
We have joined with a number of other large international investors (including MN, APs, TIAA-CREF and F&C) in urging the company to recognise the strategic importance of workers for the success of the company and to act accordingly by treating its employees with respect.
We have called on the company to bring its internal employment policy into line with internationally accepted labour rights and the company's own expectations with regard to its suppliers. At the beginning of 2012 we made further detailed recommendations on how the company could improve its reporting on performance with regard to social themes.

Unfortunately we made little progress with the company in 2012. Allegations of large-scale bribery at Walmart's Mexican subsidiary was a major contributory factor. Due to internal and legal investigations into this case, Walmart is keeping silent, including on other matters.

We called on Walmart's directors to clarify the matter and urged them to practise complete transparency. We also voiced our concerns about the corporate culture. We were not offered any opportunity to discuss these concerns and raise questions directly with executive or independent directors. Nor did Walmart's current executive directors make any additional statements.

Having regard to the lack of information and accessibility of board members, we found ourselves compelled to vote against the reappointment of Walmart's entire current board at the shareholder meeting. The majority of shareholders, however, voted in favour of the sitting board.

After this shareholder meeting we again wrote to the directors urging them to take concrete steps with regard to an independent investigation into the bribery affair and measures to improve supervision. In our letter we also called for a discussion on this subject with Walmart's independent directors. We are most concerned about the directors' lack of accountability towards shareholders and limited progress with regard to employment issues.

High-risk areas: dialogue on activities in occupied territories of Palestine

In addition to the problems that are liable to arise in companies, we also look at the risks associated with the country or region in which companies operate. Particularly in areas of political or other conflict, it is important that a company does nothing to exacerbate the conflict.

PGGM and its clients have for some time been held accountable for their investments in companies operating in the occupied territories of Palestine. PGGM is conducting various engagement projects aimed at international and Israeli companies operating in these territories.

A number of international companies, such as the transport company Veolia, the energy and transportation company Alstom and the financial institution Dexia, have now stated that they wish to divest their interests in the respective activities. This cannot be done overnight, for example because the consent of the authorities may be required. The Israeli authorities withheld consent for the planned sale of Veolia's controversial tram line in Jerusalem to a local operator. We spoke with Veolia about the steps it could take to enable such a sale to take place in the future. In short term the company will co-operate more closely with the local operator, so that it can gain the necessary experience of these activities with a view to ultimately taking them over.

In the search for an alternative to the often arduous dialogue with Israeli companies, we made contact at the beginning of 2012 with Maala, the local Israeli network of the UN Global Compact. We discussed the possibility of a round-table discussion with Israeli and international companies operating in the occupied territories of Palestine.

Maala discussed our proposal with a number of its members. In view of the sensitivities concerning this theme, however, most companies expressed a lot of concerns. Ultimately we came to the joint conclusion that this type of dialogue was not feasible at present.

We held discussions with the Advisory Board Responsible Investment (ABRI) on the approach to dialogue with companies operating in the occupied territories of Palestine. The ABRI comprises a range of experts who can advise PGGM and its clients on complex subjects in the field of responsible investment. Partly on the recommendation of ABRI, we are planning to organise a European meeting in 2013 for investors and companies who can discuss the various dilemmas with external experts and with each other. As preparation for this meeting, we will travel to Israel and the Palestinian territories, where we will engage in discussions with companies and social organisations in order to gain a better picture of the situation on the ground.

Access to Medicine Index

Proper access to basic needs is important for everyone. This includes access to medicine. This is therefore one of PGGM's focal areas. It is also a subject that closely matches PGGM's background and identity.

December 2012 saw the launch of the most recent version of the Access to Medicine Index (AtMI), which was also covered in the Dutch media. The latest AtMI report shows that the pharmaceutical sector as a whole is making progress in its policy and activities with the aim of improving access to medicine in poor countries.
PGGM sees the AtMI as a good means of assessing and comparing pharmaceutical companies. The strength of the index lies to a large extent in its positive but also competitive characteristics. All parties in principle have a chance of attaining the number-one position. PGGM is a signatory to the AtMI. The improvement in the availability of medicines is a subject which we discuss with the pharmaceutical companies in which we invest, aside from the question of whether the company can be seen as a leader or laggard in the field of AtMI. We expect the sector to have a clear vision in this field and believe that improved access to medicine will ultimately have positive effects, both socially and financially. PGGM is convinced that all companies will benefit from this and is therefore also endeavouring to move the sector in this direction.
In addition to discussions with individual companies, we developed this further in 2012 by participating in various panel discussions on the subject, with experts as well as representatives from the sector itself.

4.4 Environment

Countering environmental damage by companies is an important part of our engagement programme in the environmental field. On the themes of climate change and commodity scarcity, PGGM devoted particular attention to the following key points in 2012:

- strategic opportunities and threats of climate change;
- risks of water scarcity.

Water scarcity in China and India

PGGM wants to promote responsible use of scarce commodities. In 2012 we therefore conducted a dialogue on the theme of water scarcity. Water scarcity is a growing problem and is particularly urgent in fast-growing economies such as China and India. Political choices must be made to tackle the impending shortage of clean water. Companies can also make a contribution by reducing their own water consumption and promoting collective water security.

Jointly with Norges Bank Investment Management (NBIM), the asset manager for the Norwegian government pension fund, PGGM this year began urging mining and electricity companies in China and India to determine and reduce their water risks. Water scarcity and pollution are posing a growing risk to investment results in a number of sectors that are highly dependent on good water supplies. In order to determine the scale of the risk and what is being done to reduce it, it is primarily important that companies report the relevant information. That concerns not only reporting of a company's water use and efficiency of use, but particularly also the security of the water supply.

Together with the Norwegian company NBIM and the CDP[1] Water Disclosure Project, PGGM is encouraging companies to disclose information on the costs and continuity of business operations and possibilities for growth. We are focusing on prominent mining and electricity companies in India and China, two sectors which need a large volume of water in two regions where water is becoming increasingly scarce.

PGGM has entered into discussions with three Indian electric power companies and has also attended other events such as the Singapore Water Week to present the business case for better water risk management and reporting. We have also published a number of articles on this subject, including in Financial Investigator.
An initial milestone has already been achieved: one of the Indian power companies has begun to carry out water assessments at its power plants since the engagement project started (January 2012). Where increasing water

[1] CDP = Carbon Disclosure Project, which now also promotes and standardises reporting on water use and deforestation.

scarcity cannot be traced back to a rising water price, it is immensely important that more and better information is provided to enable investors to assess which companies are having to contend with reduced access to water and/or are being restricted in their growth.

This engagement project also requires a long-term approach: first to urge the companies involved to report on water risks in accordance with the guidelines of the Water Disclosure Project, and second to increase the number of companies reporting to the CDP.

4.5 Sector approach

In addition to themed engagement, we focus our engagement projects on specific sectors. In the dialogue with companies in a particular sector we focus particularly on the themes and risks of relevance to that sector. We applied this approach to a range of sectors in 2012, including oil and gas, mining and finance. These sectors have a high ESG risk. By focusing attention specifically on these risks and possible solutions we can encourage these sectors and the companies in them to improve.

Mining sector

One of the high-risk sectors to which PGGM devotes particular attention in its engagement programme is the mining sector. The mining sector has to contend with major risks, for example in the environmental field, on social themes, including human rights, and in terms of corruption. Jointly with the Swedish national pension funds we followed up a broadly based engagement project focused on 30 international mining companies during the year. In this project we urge them to implement best practices. In particular we are seeing that smaller mining companies starting to work in unfamiliar emerging markets are not always well prepared for the possible risks involved. The social and political context in Africa and Latin America is often volatile and can have major consequences for the success of mining projects. Operating in line with best practice standards, for example in local community involvement and land acquisition, helps secure the necessary support for the company, or the licence to operate.

Sustainability of the financial sector

PGGM and its clients are part of the financial sector, as shareholders, customers and business partners. Following the developments in the financial sector over the past few years, PGGM wants to encourage changes in behaviour in the sector. We will seek to contribute to a culture in financial institutions that embraces individual responsibility and accountability, assesses risks carefully and is focused on contributing to sustainable economic growth and a positive role in society. In 2012 we began by developing internal guidelines for our engagement with financial institutions. These are focused on changes of behaviour, structure, risks and supervision.

In 2012 we sent an ESG questionnaire to a number of banks to gain greater insight into their broad ESG policy, their policy application and accountability.
The questionnaire covered various ESG themes, such as human rights, the environment, customer interests and corruption, in order to examine whether they feature in the bank's ESG policy and how they are applied. On the basis of the ESG questionnaire scores and our internal guidelines, we have given the banks feedback on potential improvements. In addition to engagement through the ESG questionnaire we have conducted intensive discussions with two banks concerning their ESG management, protection of customers' interests and their risk management. These banks were prepared to enter into a dialogue with us. Gradual progress has been made with the required changes.

On the subject of transparent risk management in the financial sector, we worked with the Enhanced Disclosure Task Force (EDTF) in 2012. This is an association of compilers and users of financial reports in the financial sector, under the auspices of the Financial Stability Board (FSB) in the United States. In May 2012 the EDTF began developing a framework for banks aimed at better external reporting on risks. PGGM is involved in this initiative as a shareholder in financial institutions.
The initiative led to the production of an extensive report entitled 'Enhancing the Risk Disclosures of Banks'.
This contains guidelines, recommendations and examples on the provision of more balanced, complete and comprehensible risk reporting for each banking activity in a uniform, consistent and timely way, particularly for comparability and relative risk assessment.
The recommendations are a follow-up to the existing reporting obligations and we expect them to be implemented in part in the banks' reporting in respect of 2012. PGGM's focus in 2013 will be on the – preferably full – implementation of these recommendations by the international financial institutions with which we maintain relationships.

Oil and gas sector

The energy sector was again part of the sector engagement programme in the past year. As far as PGGM is concerned, the risks in the energy sector can be broadly subdivided into two categories: technical risks and geopolitical risks. We are witnessing an increase in these risks, and we do not expect them to diminish in the years ahead. Demand for oil and gas is rising constantly and untapped reserves are becoming ever harder to access.

They are increasingly to be found in politically and/or socially unstable countries such as Nigeria or Congo (geopolitical risks), in extreme conditions as in the Arctic region or in deposits that require complex extraction processes as in the case of shale gas or tar sands (technical risks).

Both categories of risk must be controlled sufficiently to limit the sector's impacts on the local population, and particularly also to reduce the risks of environmental disasters. But if we look at the news coverage on this sector, we see increasing reports of actual or impending environmental disasters and nuisance.

In 2012, PGGM focused its engagement with the sector primarily on understanding the risk control measures taken particularly in the Arctic region and in Africa and on promoting maximum control of the widely divergent risks in the two areas. We also see a need for the sector to focus increasingly on clean energy. That is borne out not only by the increased operational risks, but also by research showing that if all the proven reserves were actually extracted and used, the worldwide temperature rise would exceed 2°C. That is the limit which politicians worldwide have agreed as acceptable. Any further rise would therefore be expected to have political consequences and possibly serious physical consequences in the longer term. PGGM will also devote attention to this issue in its engagement activities in 2013.

4.6 Outlook

The composition of our passive equity portfolio in 2013 will be based on an ESG index which we have developed. We have used the underlying indicators to compile an ESG score for all companies in the passive equity portfolio. This ESG index has given us an even better insight into the companies in this portfolio. We will use it to conduct more specific engagement with companies having a low ESG score. We will also further intensify our engagement programme on the basis of the overarching themes and specific sectors, devoting more attention to specific regions for the corporate governance theme.

In order to continue effective engagement, we will further professionalise the engagement process in 2013, for example by improving the risk model and using an updated engagement database to further improve the structure and transparency of our activities. A sustainable financial sector will remain an important focal point in 2013. This will involve engagement not only with the financial companies in which we invest but also with parties with which we co-operate.

Engagement

Results and targets of key performance indicators (at year-end)	**Actual result 2011**	**Target* 2012**	**Actual result 2012**	**Target* 2013**
Number of companies engaged with directly	154	≥ 150	186	≥ 150
Number of companies engaged with indirectly (through F&C)	453		560	
Value of companies engaged with as % of managed equity portfolio as at 01-01-2012	49%		51%	

* No targets are applicable for some of these components. These components have nevertheless been included in this table to show the results of the various responsible investment activities.

5. Legal proceedings

PGGM conducts legal proceedings on behalf of its clients where necessary to recover investment losses and enforce good corporate behaviour. We do so as a shareholder in listed companies, both in the Netherlands and abroad. We prefer to work with other investors with common interests.

The main objectives of conducting legal proceedings are:

- to obtain damages;
- to create value in the long term;
- to ensure continuity of the company's activities;
- to achieve good corporate governance and good corporate conduct.

PGGM systematically assesses current or prospective legal proceedings based on active share ownership throughout the world. Our systems provide the necessary information timely to enable us to decide whether to take an active role on behalf of our clients. There must be clearly demonstrable grounds for instituting legal proceedings. That may be the case, for example, if a company has committed fraud or other forms of evident misconduct leading to losses for shareholders.
Further information can be found in the Responsible Investment Policy on our website.

Legal proceedings can be brought in various ways. The main forms are direct action, i.e. bringing independent legal proceedings against a company, or a form of collective action, such as a class action in the United States. Class action is the American name for a lawsuit brought by an entire group (class) of misled investors sharing a common interest. This class action system makes it relatively easy to secure damages for the class as a whole.

When a settlement has been reached in a class action, investors who have suffered losses can file a claim with the claim administrator, who will allocate the settlement proceeds. Investors who have played no active role in the proceedings are entitled to damages, because they automatically form part of the class. Our involvement in this type of class action is usually only passive. It is true that we participate in the legal proceedings, in some cases automatically, but our role is limited to submitting a form to claim damages for our clients. That is in contrast to class actions in which we play an active role as lead plaintiff, as in the legal proceedings against Bank of America.

5.1 Developments in 2012

PGGM was involved in five active legal proceedings on behalf of its clients in 2012: Bank of America class action in the US, the case against Olympus in Japan, the case against Vivendi in France, the Fortis case in the Netherlands and the Shell case dating from 2007 and its subsequent settlement.

PGGM reaches settlement with Bank of America

On 28 September 2012 PGGM and the other lead plaintiffs announced a settlement bringing an end to the legal proceedings against Bank of America (BAC) in the United States. BAC is paying record damages of $2.4 billion to the class of misled shareholders who saw their shares more than halve in value in January 2009 when the true state of affairs concerning the acquisition of Merrill Lynch in September 2008 came to light. PGGM is acting on behalf of its clients as lead plaintiff/co-lead plaintiff in this case and we are working with pension funds from Ohio, Texas and Sweden.

The settlement was agreed after almost four years of intensive litigation. A long-drawn-out jury trial would have begun on 22 October 2012 but became unnecessary when the settlement was reached. The lead plaintiffs argued that BAC, Merrill Lynch and a number of individual directors had breached federal securities legislation by publishing a number of materially inaccurate and misleading reports and making incomplete disclosures in publications concerning the acquisition of Merrill Lynch. This involved in particular a failure to state mounting losses of billions of dollars which Merrill Lynch had incurred in the fourth quarter of 2008 and an undisclosed agreement which enabled Merrill Lynch to make accelerated bonus payments totalling $5.8 billion for the completion of the acquisition, despite the enormous size of the losses. Unaware of these important facts, the BAC shareholders approved the acquisition at the shareholder meeting of 5 December 2008. The shareholders were thus denied their fundamental right of informed voting. Following the shareholder meeting it emerged that BAC was unable to absorb the enormous losses at Merrill Lynch and consequently had to seek US government support amounting to $138 billion.

The settlement applied to the class, the precise size of which ('certification') was determined by the court on 6 February 2012. It is by far the largest settlement ever reached in a so-called section 14(a) claim – the provision adopted to protect investors against factual inaccuracies in a proxy statement. It is also one of the four largest settlements ever reached with an individual company concerning a violation of federal securities legislation and the largest settlement ever reached without a revision of the figures or criminal convictions as a result of presumed misconduct.

An important part of the settlement is the improvement of the company's corporate governance structure. PGGM has pursued this aim vigorously, including by the following means:

- a robust system of majority voting in which a director who fails to secure a majority of votes at the general meeting of shareholders can no longer be nominated for reappointment at the subsequent meeting;
- increased transparency with regard to important mergers and acquisitions;
- an obligation upon BAC to file an annual return detailing directors who have breached the requirement to hold a minimum amount of capital in their own company;
- an obligation upon BAC to present each payment of a substantial bonus or any other remuneration agreement relating to important mergers and acquisition to the management for approval;
- an extension of the corporate governance measures previously imposed by the SEC up to 1 January 2015 at the earliest, which would otherwise have expired in March 2013.

The outcome of this case underlines the importance of active involvement on the part of institutional investors in civil lawsuits in the United States to supplement proceedings brought by the government. After all, the $150 million fine imposed by the SEC is in sharp contrast to the $2.4 billion settlement achieved partly as a result of action by PGGM.

5.2 Outlook

As lead plaintiff, PGGM is responsible for exercising care in bringing the Bank of America proceedings to a satisfactory conclusion. For example, we must rigorously supervise the allocation of the settlement amount. PGGM was able to keep the law firms' fees at a relatively limited level. With the agreement of the court, the distribution to investors is expected to begin in April 2013. PGGM expects to collect a substantial sum of behalf of its client. The precise amount of the compensation will depend greatly on the degree of participation. Due to the enormous number of claims from investors worldwide, no actual payment is expected before the end of 2013, or possibly the beginning of 2014. PGGM will also monitor strict compliance with the corporate governance agreements.

PGGM will also continue the systematic monitoring of current or new class actions in the United States and legal proceedings in other parts of the world in 2013. If necessary, we will play an active role and institute our own proceedings if that is in our clients' interest.

Legal proceedings concerning share ownership

Results and targets of key performance indicators (at year-end)	Actual result 2011	Target* 2012	Actual result 2012	Target* 2013
Active proceedings	3		5	
Proceeds of passive legal proceedings	€ 1,351,778		€ 825,977	

* No targets are applicable for some of these components. These components have nevertheless been included in this table to show the results of the various responsible investment activities.

6. Exclusions

PGGM wishes to avoid making investments on behalf of its clients which do not fit in with their identity or with ours. Hence we do not invest in controversial weapons. We may also exclude investments in companies and/or countries (government bonds) if they breach human rights or cause serious environmental pollution, for example.

Investments which do not fit in with our identity or that of our clients are excluded on the basis of various criteria. In the case of government bonds we do not invest in countries on which sanctions have been imposed by internationally recognised bodies such as the United Nations Security Council, the European Union and the International Labour Organisation (ILO).

We exclude companies if they are involved in the production of and trading in controversial weapons, including nuclear weapons and cluster munitions. Finally, we may exclude a company due to its involvement in human rights violations or, for example, corruption or serious environmental pollution. This is a question of behaviour, not a type of product. If we detect activities which we consider to be significantly undesirable or harmful, we will first enter into discussions with the company with a view to bringing about improvements. In the absence of any improvement, and if no improvement can be expected, we may exclude the company. We enter into agreements with external managers on the application of the Exclusions Policy, which we include in contracts as an investment restriction. It makes no difference whether the investee companies are listed or private. The manager who invests on our behalf is responsible for applying the policy. It is not always easy to specify this requirement, and the Exclusions Policy cannot be applied universally. In 2012 we ascertained that the policy was applied to a level of 99%. That does not mean the remaining 1% breached the policy, but we cannot state that with certainty. This percentage comprises exchange-traded funds and a number of hedge fund investments.

6.1 Developments in 2012

Exclusion of government bonds

We exclude government bonds if countries have been the subject of sanctions imposed by internationally recognised bodies. In 2012 PGGM decided in consultation with the ABRI to base exclusion decisions relating to government bonds no longer only on UN Security Council sanctions but also on relevant sanctions (such as arms embargoes) imposed by the EU. This resolution resulted in the addition of Zimbabwe and South Sudan to the Exclusions List, which at the end of 2012 contained the government bonds of 12 countries: Belarus, Eritrea, Iran, Côte d'Ivoire, Libya, Burma, North Korea, Somalia, Sudan, Syria, Zimbabwe and South Sudan.

Exclusions of companies

Three companies were added to the Exclusions List for listed companies in 2012 due to their involvement with nuclear weapons (Fluor and URS of the United States and Walchandnagar of India) and one company due to its involvement with cluster bombs (Aeroteh of Romania). Two companies, Goodridge and ITT, were removed from the Exclusions List. Goodridge was acquired by United Technologies, and it is not yet clear whether United Technologies will continue the excluded activities. United Technologies may be excluded after further investigations. ITT had divested the excluded activities in 2011, but it was not until 2012 that we were able to ascertain that any involvement in excluded weapons had been discontinued.

At the end of 2012, the listed company Exclusions List had a total of 42 names. The list of excluded names can be found on our website.

In 2012 we devoted particular attention to cluster munitions. The international Convention on Cluster Munitions, which has been in force since August 2010, prohibits signatories from using, storing, producing and transporting cluster bombs. Despite this prohibition, however, many companies are still involved in cluster munitions.

Investments in cluster munitions manufacturers have been prohibited under Dutch law since 2013. In December 2012 we held discussions with a number of other institutional investors and the Netherlands Authority for the Financial Markets (AFM), which will supervise compliance with the prohibition. This supervision will take place on the basis of an indicative, non-public list of involved companies. PGGM has provided input for the list and will remain in discussions with the AFM in 2013 to ensure that it is a meaningful list. All investments which PGGM manages on behalf of its clients comply with the legal prohibition.

It is difficult to assess whether a company is involved in trading in cluster munitions. We therefore took part in a project with 13 institutional investors aimed at developing criteria to identify involvement or termination of involvement. To develop the criteria we sought co-operation with companies that had announced a discontinuation of production of or trading in cluster weapons. However, the project mainly confirmed that companies which were or had been involved in controversial weapons such as cluster munitions were very reticent in providing information, citing military sensitivity. Partly on the basis of this outcome we are maintaining our current process: we will only remove a company from the Exclusions List if it issues a written statement confirming the termination of the excluded activity and a pledge that there are no plans to resume the activity.

Another product debated in 2012 was tobacco. Investment in tobacco poses a dilemma for PGGM. We recognise the negative health effects of tobacco consumption, but see smoking as an individual choice. The question is whether we should invest in it. We discussed this dilemma with our clients in 2012. The ABRI has also been asked to issue an opinion on this subject. We will remain in discussions with our clients on this matter and consider the dilemma in greater depth in 2013.

6.2 Outlook

From 2013 we will apply the conduct criterion more strictly in the Exclusions Policy. This means we will exclude investments more quickly on the basis of a structural investigation of our entire portfolio on a broader set of criteria. We have already done so with regard to human rights violations, but we will broaden this research to include subjects such as environmental pollution and corruption. We will initiate engagement processes with companies for which we have indications that they are breaching international treaties on these themes. If the company demonstrates insufficient progress within a particular period, exclusion will follow. We have reduced the applicable period for this compared to previous years.

Exclusions

Results and targets of key performance indicators (at year-end)	**Actual result 2011**	**Target* 2012**	**Actual result 2012**	**Target* 2013**
Number of excluded companies	40		42	
% of total assets under management covered by the Exclusions Policy	99%	≥ 99%	99,5%	≥ 99%
Excluded companies as proportion of FTSE All World benchmark	1.1%		1.1%	

* No targets are applicable for some of these components. These components have nevertheless been included in this table to show the results of the various responsible investment activities.

Outlook

PGGM had a productive year in many regards in 2012. The implementation of ESG integration was increased and innovative projects were completed, such as the ESG index. We also brought a lawsuit to a successful conclusion and achieved results with our engagement and voting.

But responsible investment is about more than meeting quantitative objectives; the possible impact of these activities is also important. We therefore believe it is important to look continuously at our role and responsibilities and where and how we can be more effective. Nor are we shy about discussing any dilemmas with our clients and other stakeholders. In this regard we looked specifically at the financial sector in 2012. In 2013 we are further investigating how we can contribute to a sustainable financial system and will continue our engagement with financial institutions and financial partners.

The ESG index developed in 2012 will be implemented in 2013. The ESG index ensures a more responsible equity portfolio. Using the developed model we will also be able to carry out our engagement in a more targeted way – not only with the laggards but also with other companies in the portfolio. We will maintain the current approach of basing our activities on themes and specific sectors.

As well as carrying out our activities, we will continue to develop our policy in 2013. In refining our policy we will take account of new developments in PGGM, but also of developments outside PGGM and among our clients.

We realise that answers will not always be found to the issues we encounter, but by carrying out innovative projects and continuously improving our existing activities we aim to take important steps in the right direction.

We believe responsible investment is important not only because our clients and the members of the PGGM co-operative organisation demand it, but also because we believe that as a pension fund administrator PGGM has a social responsibility. We are also convinced that a high and stable return can go hand in hand with responsible investment. Responsible investment therefore fits in with who we are.

Appendix I. Accountability and principles

Principles

In this 2012 Annual Responsible Investment Report we provide information for our clients, their participants and other interested parties on PGGM's activities in the field of responsible investment. Where we refer to clients in this report we mean both the clients of PGGM Vermogensbeheer participating in the PGGM funds and the clients for whom PGGM manages discretionary portfolios. If we state that we invest in a certain portfolio, we always mean that we do so on behalf of our clients. The information in this annual report only covers responsible investment activities within PGGM Vermogensbeheer B.V. More extensive information on PGGM B.V. and PGGM Coöperatie U.A. can be found on the PGGM website in the PGGM 2012 annual report. This describes among other things PGGM's mission, PGGM in brief, PGGM and figures and wider sustainability activities.

This PGGM Annual Responsible Investment Report 2012 provides information on the 2012 financial year running from 1 January to 31 December 2012. This annual report is limited to the responsible investment activities within PGGM Vermogensbeheer B.V. Unless stated otherwise in the respective chapters, the data have been obtained from our financial and RI databases.

Policy documents

The Responsible Investment Policy has been further detailed in policy documents, the Exclusions Policy, the Listed Equity Ownership Policy (LEOP) and policy documents for specific investment categories.
Further information on PGGM's policy can be found on our website: ww.pggm.nl/About_PGGM/Investments/Responsible_Investment.

Selection of material issues

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

Guidelines followed

In compiling the PGGM Annual Responsible Investment Report 2012 we have applied the principles of the Global Reporting Initiative (GRI) G3. The GRI principles relate to both substantive choices (materiality, involvement of stakeholders, the sustainability context, completeness) and the quality of the reporting (balance, comparability, accuracy, timeliness, clarity, reliability). In addition, where possible, we have reported on the indicators of the GRI Financial Services Sector Supplement (FSSS Final Version, 2008). We have not followed the GRI to the letter in this report, because it concerns the asset management activities and not the activities at corporate PGGM N.V. level. Further information on the sustainability activities at corporate level can be found in the PGGM N.V. Annual Report. The six Principles for Responsible Investment (PRI) of the United Nations have also provided a guideline for the reporting.

Finally, we use PGGM-specific indicators for the responsible investment activities which PGGM has agreed with its clients. These indicators are stated in table 1. KPIs for responsible investment (page 12).

Audit

The text of the PGGM Annual Responsible Investment Report 2012 has been audited internally by the tax, legal and compliance departments, among others.

Appendix II. Independent Assurance Report

To the Readers of the 'Responsible Investment - Annual Report 2012' of PGGM Vermogensbeheer B.V.

We were engaged by the management of PGGM Vermogensbeheer (further 'PGGM') to provide assurance on the information in the 'Responsible Investment - Annual Report 2012' (further 'the Report'). The management of PGGM is responsible for the preparation of The Report, including the identification of material issues. Our responsibility is to issue an assurance report based on the engagement outlined below.

What was included in the scope of our assurance engagement?

Our assurance engagement was designed to provide limited assurance on whether The Report is presented, in all material respects, in accordance with the reporting criteria referred to below.
We do not provide any assurance on the achievability of the objectives, targets and expectations of PGGM. Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

Which reporting criteria did PGGM use?

PGGM applies internally developed criteria as described in 'Annex 1. Accountability and principles' on page 57 of the Report. It is important to view the performance data in the context of these criteria. We believe these criteria are suitable in view of the context of our assurance engagement.

Which assurance standard did we use?

We conducted our engagement in accordance with the International Standard for Assurance Engagement (ISAE 3000): Assurance Engagement other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. This standard requires, among others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to provide assurance on sustainability information, and that they comply with the requirements of the Code of Ethics for Professional Accountants of the International Federation of Accountants to ensure their independence.

How did we reach our conclusion?

Our procedures included the following:

- A risk analysis, including a media search, to identify relevant issues for PGGM in the reporting period in relation to responsible investment;
- Reviewing the suitability of the internal reporting guidelines of PGGM;
- Evaluating the design and implementation of the systems and processes for the collection and processing of the information for the Report;
- Interviewing relevant staff at corporate level responsible for the sustainability strategy, policies, communication and management in relation to responsible investment and other staff at corporate level responsible for the delivery of information for The Report;
- Evaluating internal and external documentation, based on sampling, to determine whether the information in The Report is supported by sufficient evidence;

We have discussed necessary changes to the information in the Report during our procedures with PGGM and concluded that these changes have been adequately implemented in the final version of the Report.

What is our conclusion?

Based on the procedures performed, as described above, nothing has come to our attention to indicate that The Report is not presented, in all material respects, in accordance with the reporting criteria.

Amstelveen, 5 April 2013

KPMG Sustainability
Part of KPMG Advisory N.V.

Drs. W.J. Bartels, RA partner

Colophon

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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

www.pggm.nl

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