Pensioenfonds PGB integrated SRI policy

10 February 2020

MANAGEMENT SUMMARY

Pension fund PGB implements the sustainability ambition "PGB is more than money alone" by means of the socially responsible investment (SRI) policy. The policy has been prepared in accordance with the SRI framework and includes the SRI objectives, their implementation and SRI reporting. An implementation plan will follow. The content of the SRI policy document is as follows:

The SRI Framework provides the principles for the SRI Policy.
The SRI framework consists of legislation and regulations, external policy guidelines, the wishes of the participants and the investment beliefs of PGB. The principles of the SRI framework form the basis for the SRI policy.

The SRI objectives focus on improving the risk-return profile and making a positive contribution to society.
PGB's main SRI objective is: to improve the risk-return profile of the investment portfolios and to make a positive contribution to society through socially responsible investment choices. The positive contribution to society is subordinate to the risk-return objective. The SRI policy addresses these objectives through the pillars of restriction, reinforcement and utilisation. Restriction of SRI-related tail risks by controlling climate risks; reinforcement of the PGB portfolio by deploying SRI instruments within the entire portfolio and taking advantage of opportunities to make a positive contribution to society.

PGB believes in an integral approach to the SRI policy, whereby the SRI policy is applied to the entire portfolio. The emphasis is therefore on reinforcement whereby the aim is for the investments in the entire portfolio to be socially responsible (ESG) and, if possible, to have a positive social impact (ESG = Do No Harm and Impact = Do Good). In the SRI policy, extra attention is paid to supporting the chosen development goals (SDGs) of the United Nations.

The implementation of the SRI policy is shaped by SRI instruments.
The SRI is implemented by means of instruments within the pillars of restriction, reinforcement and utilisation.
- Restriction: implementation through an exclusion policy on tobacco and weapons, companies that may be adversely affected by the energy transition and companies that act in contravention of laws and regulations and/or external guidelines.
- Reinforcement: the implementation consists of integrating ESG criteria into the investment portfolios and encouraging socially responsible behaviour by means of pursuing an active engagement and voting policy. In addition, active cooperation within the pensions sector and the engagement of participants in the SRI policy is being pursued.
- Utilisation: implementation focuses on increasing the social contribution of PGB's investments. The five chosen SDGs are used as key objectives.

SRI reporting provides stakeholders with information on the SRI policy.
Reporting on the SRI policy is presented around the pillars of restriction, reinforcement and utilisation.
- Restriction: within the restriction pillar, PGB reports on the excluded investments and the fund's CO2 footprint.
- Reinforcement: within the reinforcement pillar, PGB reports on the progress of ESG integration, the results of the engagement and voting process and outcomes of collaborative initiatives.
- Utilisation: within the Utilisation pillar, PGB reports on the social impact of PGB's investments based on the (chosen) SDGs.

CONTENTS

1. Introduction

This policy document serves to set out PGB's Socially Responsible Investment (SRI) policy [1]. The SRI policy is an integrated policy and gives substance to the sustainability ambition [2] of the fund, legislation regarding SRI and the wishes of the participants. PGB has had a SRI policy since 2016 and reports on it in the Annual SRI Report.

The SRI policy is reviewed periodically, at least once every three years, to ensure that developments in the area of SRI are followed. The main adjustments and recommendations of the current SRI policy compared to the previous SRI policy are described in the "Update SRI Policy" proposal memorandum.

Structure of this document
The SRI policy document is structured as follows:

- Chapter 2: The SRI framework.
  This chapter provides an overview of legislation and regulations, the participants' wishes, external policy guidelines and PGB's investment beliefs.

- Chapter 3: Objectives of the SRI policy.
  This chapter describes the objectives PGB wants to achieve with its SRI policy.

- Chapter 4: Implementation of the SRI policy.
  This chapter takes stock of which SRI instruments PGB uses to achieve the SRI objectives. The possibilities for further implementation of the SRI policy are also explained.

- Chapter 5: Reporting on the SRI policy.
  This chapter describes the reporting on the SRI policy on the basis of PGB's objectives.

Annexes
Annex I: Explanation of legislation and regulations and external policy guidelines
Annex II: Deepening the SRI investment beliefs
Annex III: SRI and external manager selection
Annex IV: Overview of Responsible Investment Pension Federation

[1] Also including PGB's engagement policy.
[2] "PGB is more than money alone"

2. The SRI framework

This chapter explains the SRI framework. The principles in the SRI framework give direction to the SRI policy. The framework is formed by legislation and regulations, the participants' wishes, external policy guidelines and PGB's investment beliefs. This framework is represented schematically in the figure below.

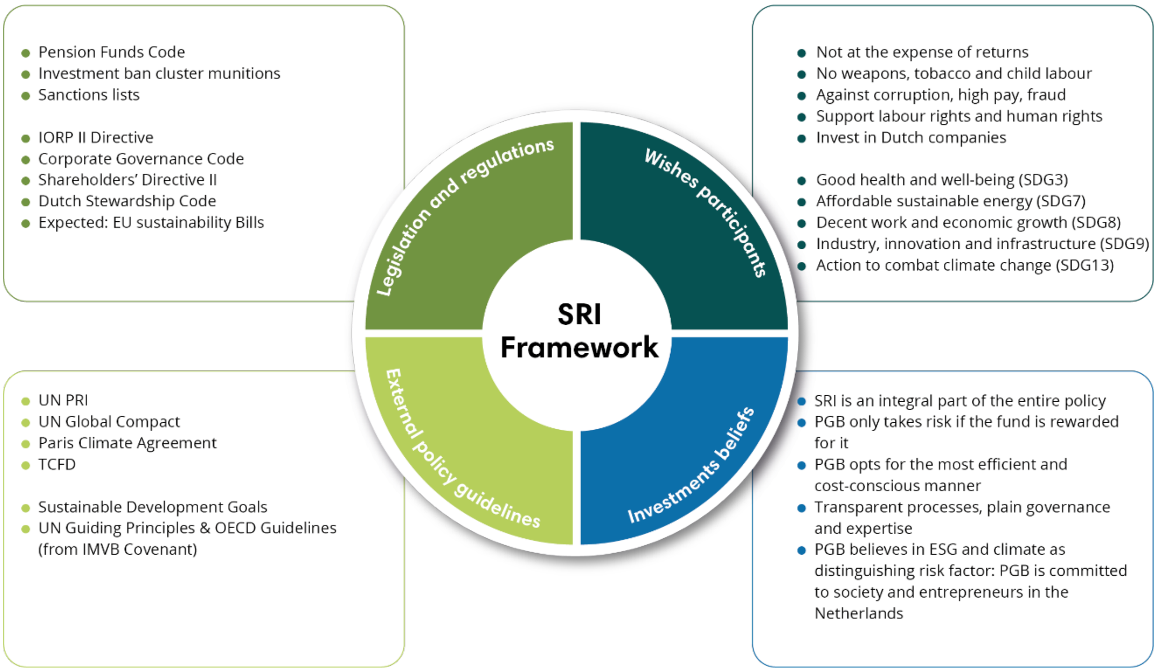

Figure 1. SRI framework for PGB.

2.1 Legislation and regulations

In the field of socially responsible investment, pension funds in the Netherlands must comply with various requirements. These are described in more detail in Annex I. Below is a brief explanation of how this fits in with the SRI policy. Chapter 5 discusses in more detail the reporting requirements arising from national and international regulations.

2.1.1. Dutch legislation and regulations

The general standards for policy in the field of SRI are laid down in the law in the *Pension Funds Code* (standards 27 through 29 of the Code). PGB follows these standards by integrating SRI into the general investment policy, by including the wishes of participants in choices about responsible investment and by reporting on the policy. Also the investment ban on cluster munitions and the (inter)national sanctions lists are followed; PGB does not invest in companies/countries that are on the (inter)national sanctions lists. With the renewed SRI policy, PGB also follows the Dutch Corporate Governance Code and the Dutch Stewardship Code by providing public information about the policy it pursues as a shareholder of Dutch and international companies.

2.1.2. European legislation

European legislation for Dutch pension funds focuses, in the field of SRI, on the management of ESG risks [3] and on investment stewardship. The IORP II Directive requires pension funds to include ESG and climate risks in their risk policy and own-risk assessment. In addition, pension funds must indicate in the statement of investment policy principles how ESG impacts are taken into account in the investment policy. The Shareholders' Directive II (AHR II) requires institutional investors to pursue an engagement policy and to align

[3] Environmental, social and governance risks in the investment portfolio

their investment strategies and decisions with the risk profile and long-term investment needs of their institutional investor clients. PGB has included this in the actuarial and technical business report (ABTN). The SRI policy comprises PGB's engagement policy. PGB accounts for this on its website and in the Annual SRI Report in the form of its engagement and voting policy.

In addition to the existing legislation, PGB also takes into account the 2018 'Action Plan on sustainable Finance' of the European Commission. The Action Plan aims to move more capital towards sustainable investments, integrate sustainability into risk management and promote transparency and a long-term focus. Following the proposals, the European Council adopted three regulations, one of which is the Sustainable Finance Disclosure Regulation (SFDR) on sustainability risks. This SFDR establishes harmonised rules for financial market participants and financial advisers on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with regard to financial products. The SFDR entered into force on 10 March 2021 and PGB complies with the requirements of this SFDR. An additional regulation has also been proposed (Regulatory Technical Standards (RTS)) and is expected to enter into force on 1 January 2022. This additional RTS regulation prescribes how market participants must be transparent about the extent to which financial investment products are in line with the European sustainable taxonomy. Also adopted is the Regulation amending the Benchmarks Regulation with regard to EU climate transition benchmarks, which concerns EU aligned benchmarks and sustainability-related information for benchmarks (Low Carbon Benchmark Regulation). Finally, the European Council and the European Parliament have agreed on a regulation for a taxonomy (classification system) indicating which economic activities can be considered environmentally friendly. The Taxonomy Regulation also has an RTS that complements the RTS on the SFDR. This RTS on Taxonomy is not yet final, but it is expected to become final in the course of 2021. Following on from this, the European Commission issued a press release on 21 April 2021 concerning further measures that have been adopted to ensure a better flow of money to sustainable activities in the EU. This includes the green taxonomy, which should make it clear which activities make a substantial contribution to two environmental objectives of the Taxonomy Regulation; adaptation to climate change and mitigation of climate change. The Taxonomy Regulation is a document that will evolve over time in response to new developments and technological advances.

2.2 External policy guidelines

In addition to the Dutch legal requirements for the SRI policy, there are various national and international policy guidelines. The most important policy guidelines are: the United Nations Guidelines, the Paris Climate Agreement, the OECD Guidelines and the Sustainable Development Goals (SDG). PGB's SRI policy is in line with these external policy guidelines.

In particular, the ISRI Covenant is also important. Pension funds that have signed the Covenant, including PGB, opt in the Covenant for an approach in which the OECD Guide Lines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs) are used as a basis to identify, prioritise and address ESG risks. Within the Covenant there is cooperation with non-governmental organisations (NGOs), trade unions and government. The external policy guidelines are further explained in Annex I.

2.3 The participants' wishes

It is important for PGB that there is support for the policy on socially responsible investment. Therefore, a survey was conducted to gain insight into participants' expectations and wishes regarding SRI. In 2016, this resulted in the following:

- SRI should not be at the expense of returns or lead to higher risks.
- Avoid high rewards, corruption and fraud.
- Make policies that promote good health, working conditions and human rights.
- Do not invest in the most controversial sectors; tobacco and weapons.
- Do not invest in companies that use child labour.
- Invest more in Dutch companies and infrastructure.

In 2018, PGB expressed its desire to have a positive impact on its environment. To this end, a connection was made with the 17 United Nations Sustainable Development Goals (SDGs). In 2018 and 2019, participants were then asked which of the 17 development goals they considered most important. The following goals are identified as the most important ones:

- Good health and well-being (SDG3)
- Affordable renewable energy (SDG7)
- Decent work and economic growth (SDG8)
- Industry, Innovation and Infrastructure (SDG9) and
- Action to combat climate change (SDG 13)

Specifically, the question was also asked about ideas on SDG-related investments in the Netherlands. The same SDGs scored high. PGB uses these five SDGs as key objectives in this SRI policy and reports on them in the SRI reports.

Also, in line with the ISRI Pension Funds Covenant, the board determined two thematic focus areas based on stakeholders' priorities: human rights and labour rights.

2.4 The investment beliefs of PGB

The investment policy is based on the investment beliefs of PGB. Socially responsible investment is part of the investment beliefs. PGB believes that socially responsible investing contributes to achieving a decent and affordable pension for participants. This is why PGB has included the following SRI belief in the fund's investment beliefs:

PGB believes in ESG and climate as a distinguishing risk factor: PGB is committed to society and entrepreneurs in the Netherlands.

On the one hand, PGB believes that ESG risks should be managed by making socially responsible investment choices. On the other hand, PGB believes that a positive social contribution is necessary for a social, clean and stable future society for participants.

In order to deepen the SRI investment beliefs, PGB goes further into the following SRI-related issues within its SRI policy:

A. **Climate:** PGB believes that climate change is currently insufficiently priced in by the market and this leads to investment risks and opportunities.
B. **ESG:** PGB believes that integrating ESG criteria in the long term leads to a better risk-return profile of investments.
C. **Stewardship:** PGB believes that acting as a committed investor by means of voting and showing commitment leads to long-term value creation of the investments.
D. **Social responsibility:** PGB has an impact on the world around it and wants to make a positive contribution to society.

The above deepening of the SRI investment beliefs is explained in Annex II.

3. SRI objectives

This chapter describes the objectives PGB wants to achieve with its SRI policy. The main principles and objectives are explained and set out according to the pillars of restriction, reinforcement and utilisation.

3.1 Main SRI objective

The main principle of the SRI policy is twofold. On the one hand, the SRI policy is used as a risk management tool for direct and indirect ESG risks. PGB believes that, in the long run, socially responsible investing contributes to a better risk-return profile of the fund's investments. On the other hand, by means of the SRI policy, PGB gives substance to the strategy of the Pension Fund: "PGB is more than money alone". PGB wants to have a positive impact on its environment so that participants can enjoy their pensions in a social, clean and stable society in the future. PGB's SRI policy can contribute to a sustainable future for participants by means of SDG-related investments, the application of ESG criteria and investment stewardship.

PGB therefore applies the following main SRI objective:

Improve the risk-return profile of investment portfolios and make a positive contribution to society through socially responsible investment choices. In this context, the positive contribution to society is subordinate to the risk-return objective.

PGB's SRI policy gives substance to the main objective by means of the pillars restriction, reinforcement and utilisation. The pillars are shown schematically in Figure 2 and explained further in sections 3.2 through 3.4.

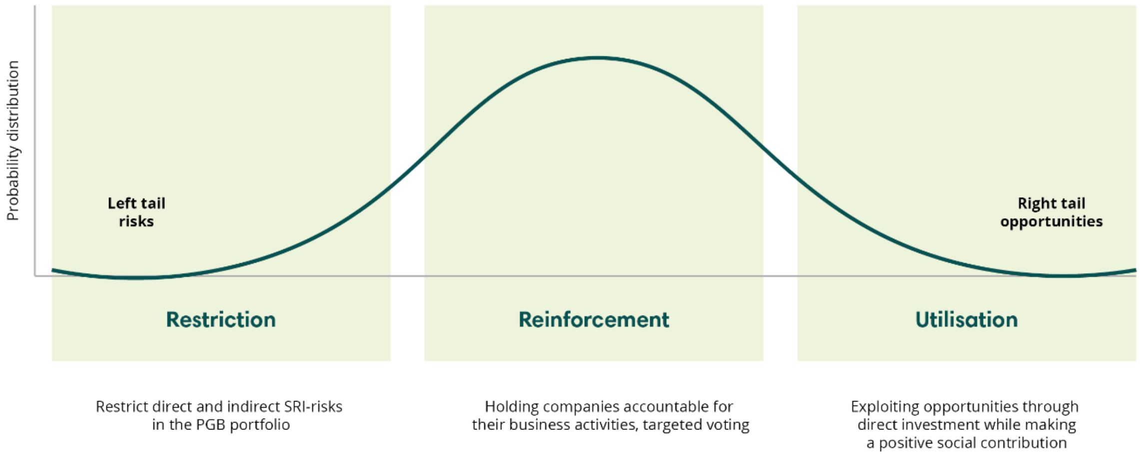

Figure 2. The pillars of the SRI policy

3.2 Restriction

The restriction pillar focuses on the objective of reducing SRI-related tail risks within PGB's investment portfolios. In addition, the restriction pillar also concerns PGB's exclusion policy.

PGB strives to:

1) Take into account the wishes of the participants, legislation and regulations and external policy guidelines [4] in the fund's exclusion policy.
2) Reduce the fund's CO2 footprint.
3) Limit the exposure to physical climate risks within PGB's investment portfolios.

3.3 Reinforcement

The reinforcement pillar focuses on the objective of improving the social responsibility of the companies in which PGB invests. This controls ESG risks within PGB's investment portfolios.

PGB strives to:

1) integrate ESG criteria into all PGB investment portfolios.
2) Implement the ISRI covenant.
3) Make use of engagement with companies to encourage socially responsible behaviour.
4) Use voting rights at shareholders' meetings to encourage socially responsible behaviour.
5) Seek cooperation with other pension funds in the area of SRI and support SRI initiatives.
6) To involve and inform participants on a regular basis.

3.4 Utilisation

The utilisation pillar focuses on the objective of capitalising on opportunities and contributing to a sustainable future for participants. In doing so, alignment is sought with international policy guidelines and the wishes of participants.

PGB strives to:

1) Increase the socially positive contribution of the investments in the investment portfolios on the basis of the SDGs. In doing so, the chosen SDGs are the key objectives.

[4] Like the guidelines of the OECD and the United Nations.

4. Implementation of the SRI policy

This chapter describes the implementation of the SRI policy. It sets out the instruments PGB uses or wants to use to achieve the SRI objectives. The implementation of the SRI policy is described according to the pillars restriction, reinforcement and utilisation.

4.1 How restriction is implemented

PGB implements the restriction pillar by means of an exclusion policy and other measures to control climate risks.

4.1.1 Take into account the wishes of participants, legislation and regulations and external policy guidelines in the fund's exclusion policy.

PGB takes the wishes of participants, legislation and regulations and external policy guidelines into account in the fund's exclusion policy. The participants' wishes are taken into account in the policy by means of an exclusion policy for companies in the tobacco industry and companies that sell and/or produce controversial weapons or small arms for civilians. PGB takes legislation and regulations into account by following relevant investment bans and sanctions lists and excluding companies that are subject to them. PGB incorporates external policy guidelines in its exclusion policy by excluding companies that act contrary to the United Nations Global Compact Principles. These are the minimum policy guidelines for companies' fundamental responsibilities regarding human rights, labour rights, the environment and anti-corruption measures. Furthermore, in accordance with the ISRI covenant, PGB adheres to the policy guidelines of the OECD and the Guiding Principles on Business and Human Rights of the United Nations. The OECD and UN guidelines are included in PGB's exclusion policy.

4.1.2 Aim to reduce the fund's CO_2 footprint.

PGB strives to reduce its CO_2 footprint. PGB has embraced the Climate Agreement and linked up with the ambitions of the Netherlands and the EU. This means that PGB aims to halve its CO_2 footprint by 2030. PGB uses the end of the first half year of 2018 as the first measurement date. In fact, in the second half of 2018, the objective of reducing the CO_2 footprint has already been fulfilled by an exclusion policy on coal companies. PGB does not invest in companies that generate more than 50% of their income from the coal industry. [5] In addition, within the corporate bond portfolio, a risk surcharge is applied for companies with an increased CO_2 risk by applying the Carbon Risk Rating.

PGB expects that the risks of investments in CO_2 footprint-intensive companies will increase in the near future due to expected further disinvestments of investors, increasing regulation and possible disruptive technological developments. Therefore, reducing the CO_2 footprint ahead of the market will pay off.

A number of starting points for the implementation are:

- Strive to measure the CO_2 footprint of as much of the portfolio as possible.
- Strive to reduce the CO_2 footprint within portfolios where it can be measured. This can be achieved, for example, by purchasing low-carbon products and/or implementing exclusions on CO_2-intensive companies.
- For portfolios where the CO_2 footprint cannot be measured, use the same decreasing path, but on the allocation to fossil investments.

4.1.3 Strive to limit the exposure to physical climate risks within PGB's investment portfolios.

PGB's investment portfolios are subject to physical climate risks. The management and/or mitigation of these risks requires a vision on climate risks and formal inclusion in the risk management process. PGB's starting point is that physical climate risks have not yet been priced in, that it is a subject that will remain on the agenda in the coming decades, and that developments are fairly unpredictable.

[5] Companies that have a transition policy in accordance with the Climate Agreement will not be excluded, this in consultation with BMO.

The physical climate risks are addressed within the mortgage portfolio. For example, flood risks are included in the assessment of Dutch mortgages. To further integrate physical climate risks into the investment portfolios, PGB will investigate new risk models for physical climate risks.

4.2 How reinforcement is implemented

PGB implements the reinforcement pillar by integrating ESG criteria into the investment portfolios and, as a committed investor, calls companies to account for socially irresponsible behaviour. PGB also endorses the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, using the OECD Guidelines for Institutional Investors as a guide. The input of the participants strengthens the social implementation and support for the policy.

4.2.1. Strive for the integration of ESG criteria into the investment process of all investment portfolios.

PGB aims for an integral application of ESG criteria [6] across the entire investment portfolio. PGB has taken steps by integrating ESG criteria into the selection process and contracts with external managers (see Annex IV). In addition, ESG criteria have been applied by several external managers in the investment process.

Within the equities portfolio and matching portfolio, PGB has actively investigated the possibilities for the integral application of ESG criteria. To date, no solution has been found that satisfies PGB's starting points, including: a positive contribution to the risk-return profile. However, the possibilities have been strongly increasing in recent years. This is partly due to improved ESG data, better analysis techniques and the emergence of new parties who have adopted a purely quantitative perspective to integrate ESG criteria. PGB therefore expects that the objective of integrally applying ESG criteria across the entire investment portfolio can be achieved in the foreseeable future.

4.2.2. Give substance to the ISRI Covenant

Pensioenfonds PGB endorses the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. The OECD guideline for institutional investors serves as a guide in this context. PGB expects its fiduciary manager, external asset managers, ESG service providers and companies in which it invests to act in accordance with these international standards and to make this known publicly.

The Covenant's guidelines offer points of reference for policy with regard to countries and companies in areas where human rights are violated, and with regard to products that have a high negative ESG impact.

When screening our investment portfolio, (potential) negative impacts on society and the environment are identified. In doing so, the most serious negative impacts are prioritised on the basis of:

- Seriousness
- Scale
- Irreversibility

The degree of probability is also taken into account.

In assessing our identified actual and potential negative impacts, we involve external stakeholders and experts where relevant, such as Sustainalytics and BMO GAM.

Further details are described in the ISRI implementation document that is to follow.

4.2.3. Use engagement with companies to encourage socially responsible behaviour.

Engagement is the dialogue between investors and the companies in which they invest. Companies are encouraged to address material ESG factors to manage risk and support long-term value creation. Engagement takes place across the portfolio. PGB calls its external managers to account on ESG and enters into discussions with them to implement ESG criteria in their portfolios. For the listed equity portfolio and the IGC portfolio, PGB appointed BMO Global Asset Management as engagement service provider in 2017. Each year, we

[6] ESG criteria are non-financial factors that measure companies' environmental, social and governance performance.

consider which companies should be prioritised for intensive and frequent dialogue with regard to high ESG risks and negative ESG impact. Furthermore, there is ongoing monitoring of Global Compact violations and theme engagement on specific projects. The engagement policy is implemented in accordance with the OECD and UNGP guidelines. These projects often run for several years. Examples of engagement projects are: a living wage, sustainable chain management, climate action, sustainable maritime transport, diversity policy and water biodiversity.

In addition to the engagement projects, PGB is also involved through BMO in various cooperative ventures around specific ESG themes. These include working groups on sustainable palm oil, sustainable fisheries and cattle breeding, access to medicine, methane risks in the oil and gas sector, cybersecurity and gender diversity.

4.2.4. Use voting rights at shareholders' meetings to encourage socially responsible behaviour.
PGB acts as a committed investor in the shareholders' meetings of listed companies. PGB's voting process for the listed equity portfolios has also been outsourced to BMO Global Asset Management. PGB can add its own emphases in line with the focus SDGs. This is in line with the aim of stimulating socially responsible behaviour and identifying social themes relevant to PGB.

The main areas of focus are: social and environmental factors and climate risks, diversity of board and top management, remuneration differences between top and average employees, direct responsibility of board members and accountability of auditors.

4.2.5. Seek cooperation with other pension funds in the area of SRI and support SRI initiatives.
PGB wants to further strengthen its SRI policy by active cooperation, exchanging best practices and supporting SRI-related initiatives. For better cooperation with other pension funds, PGB will become a member of the VBDO and participate more actively in Eumedion to emphasise its commitment to the Netherlands. Where possible, PGB will also make use of tools such as the APG/PGGM SDG taxonomy (SDI - Asset Owner Platform).

4.2.6. Involve and inform the participants on a regular basis.
PGB implements the objectives of strengthening the bond with its participants and informing them on a regular basis by means of participant surveys, seminars, the Accountability Body and SRI reports.

4.3 How utilisation is implemented
PGB implements the utilisation pillar by striving to increase the allocation to SDG-related investments in the entire portfolio.

4.3.1 Strive to increase the positive social contribution of the investments in the investment portfolios on the basis of the SDGs. Use the chosen SDGs as key objectives.
In 2018, Pensioenfonds PGB expressed its wish to have a positive influence on its environment. In addition, PGB believes that responding to long-term trends such as the energy transition can lead to a higher return. In order to implement this, PGB wants to increase the social contribution of the investments in the investment portfolios on the basis of the SDGs of the United Nations. The aim is an annual increase of investments with a positive SDG contribution in all strategies. Important in this context is that the ultimate goal is to make a positive contribution to society. SDG-related investments are a means to achieve the desired positive contribution. It is also important that the increase in SDG-related investments in the portfolio does not come at the expense of the risk-return profile of the investment portfolio.

There are several investments that make a positive contribution to society and do not negatively impact any of the other SDGs. PGB has a preference for investments that make a social contribution in the Netherlands and investments that contribute to the fund's chosen development goals (SDG 3, SDG 7, SDG 8, SDG 9 and SDG 13).

Currently, PGB's portfolio contains approximately EUR 1.2 billion of SGD-related investments. Of this, about 600 million is invested in real estate, infrastructure and alternative high-yield securities and about 670 million in listed shares and bonds. However, it should be noted that there is not yet a market standard for a taxonomy to determine an investment's contribution to the SDGs. As soon as the market has embraced a standard taxonomy such as that of APG/PGGM or the EU taxonomy for green investments, PGB will use it to measure the positive social contribution of the portfolio.

The possibilities for increasing the positive social contribution will be worked out in the implementation plan. A number of starting points for the implementation are:

- Investigate the expansion of specific target investments within the investment portfolio, such as: green bonds, impact funds/mandates, theme funds, sustainable real estate investments and/or real investments with a CO2-negative footprint such as sustainable forestry or agriculture.
- Investigate the increase of SDG-related individual investments in the other portfolios.

5. SRI reports

This chapter further explains the reporting of the SRI policy. PGB wants to strengthen the relationship with its participants by being transparent in its policy and its implementation; PGB is also statutorily obliged to render account to the public for its socially responsible investment policy. Furthermore, the pension fund renders account for its compliance with (sanctions) legislation and external policy guidelines. Finally, the pension fund wants to report on SRI objectives. Below is a description of how PGB, as part of its SRI policy, reports on the pillars of restriction, reinforcement and utilisation. It includes the reporting requirements of IORP II, AHR II, the Corporate Governance Code, the Dutch Stewardship Code and the ISRI Covenant. In general, PGB reports on all these subjects in the Annual SRI Report.

5.1 Reporting on restriction

5.1.1. External reporting

PGB's exclusion lists are published on the website. These contain information on the name of the company, the country in which the company operates, the reason for exclusion and the date on which the company was excluded. There is also a separate listing of companies that are excluded because of the ban on cluster munitions. The website also contains an explanation of the 10 Global Compact principles, sanctions legislation countries and the investment policy relating to those sanction countries. (For example, we do not invest in government bonds of those countries). The financial results of the exclusion policy are reported in the Annual SRI Report.

PGB reports on the fund's CO_2 footprint and climate policy in the Annual SRI Report. The baseline measurement of the CO_2 footprint takes into account strategic choices made by the fund. The baseline measurement is country-neutral and assumes passive investments within the fund. For example, the CO_2 footprint reduction target for listed shares is set against the MSCI All Country World Index.

5.1.2. Internal reporting

The financial results of the exclusions are reported in the monthly SRI report. The Balance Sheet Committee (CB) receives an overview of all excluded names with reasons for exclusion on a quarterly basis. In the case of policy proposals to the CB, the CO_2 footprint impact of the proposed policy will be stated for each proposal.

5.2 Reporting on reinforcement

5.2.1. External reporting

PGB will report on the progress of ESG integration and the approach for due diligence with regard to OECD Guidelines and UNGPs in the Annual SRI Report. On the basis of the ISRI Covenant, PGB is obliged to publish the names of all listed shares within mandates and funds on its website.

It will also be stated on the website that PGB makes use of BMO Global Asset Management as its voting agent. The voting policy and engagement policy will be explained. The explanatory notes briefly state the guidelines on which the vote is based and underpin the belief that engagement leads to long-term value creation. The investment beliefs will be published on the website. Every quarter, the engagement reports and the voting tables will be posted on the website with an explanation. Specifically, it will report on the engagement and voting behaviour of Dutch companies and the requirements of the ISRI covenant will be met. BMO Global Asset Management will also report on the SDG activities and specifically also on PGB's focus SDGs. This will be part of the engagement reports that will be posted on the website. PGB will continue to involve participants in the SRI policy and will report on collaborations.

5.2.2. Internal reporting

The board will receive the results of the engagement and voting process quarterly before they are posted on the website. Special votes will be explained and submitted to the CB/Board. The implementing body, PGB

Pensioendiensten B.V., will report on the progress of ESG integration in the monthly SRI report. It will explain in how many contracts ESG is included in and in which part of the portfolio ESG criteria are included.

5.3 Reporting on utilisation

5.3.1. External reporting
PGB will report on the SDG-related investments in the Annual SRI Report.

5.3.2. Internal reporting
PGB will report on the SDG-related investments in the monthly SRI report. The report focuses on the size, financial developments and SDG contribution of the investments.

5.4 Internal reporting on the SRI targets
The formulated SRI targets aim to make the results and progress of the SRI policy measurable. Failure to achieve the targets set, especially in the areas of climate and ESG integration, constitutes a risk in itself. For this reason, an SRI Dashboard will be created for the board as part of the SRI policy.

The reporting proposals that are part of the SRI policy have consequences for the reporting requirements of the external and internal managers. After the adoption of the integrated SRI policy, these will be further elaborated.

ANNEXES

The annexes to the SRI policy consist of:

ANNEX I: Explanation of legislation and regulations and external guidelines
This annex sets out the legal requirements and external guidelines. In 2019, PGBPD conducted an SRI Gap Analysis with the aim of identifying which regulations still need to be complied with, and how. The SRI policy and its implementation are intended to meet this requirement.

ANNEX II: Deepening the SRI investment beliefs
In this annex, the economic bases of PGB's SRI conviction are set out.

ANNEX III: SRI and external manager selection
This annex shows how ESG criteria are part of the selection process for external managers. This is an example of how it is currently being implemented.

ANNEX IV: Overview of Responsible Investment Pension Federation
In February 2019, the Pension Federation released an overview of all relevant rules, guidelines and legislation for sustainable investing at pension funds. This overview was used for the design of the SRI policy.

ANNEX I: Explanation of legislation and regulations and external guidelines

1. Legal Framework

	Implemented in the SRI policy?
1. Pensions Act / Pension Fund Code	YES
2. Investment ban on cluster munitions	YES
3. Investment ban sanctions lists	YES
4. Dutch Corporate Governance Code	YES
5. IORP II	YES
6. Shareholders' Directive II	YES
7. EU sustainability Bills	-

1.1. Pensions Act/ Pension Funds Code

On 1 July 2014, the Pension Funds Code, a form of self-regulation, was statutorily embedded in the Pensions Act. The Pension Funds Code thus contains the practical implementation of the statutory requirement for 'good governance' of a pension fund (Article 33 of the Pensions Act). With this legal basis, the pension sector is the only sector with statutory sector provisions for responsible investment.
The Pension Funds Code contains the following standards for the SRI policy of pension funds:

- The board ensures that the investment policy states how the fund takes account of the environment and climate, human rights and social relations;
- The board has the responsibility to ensure the best possible return at an acceptable risk;
- The board ensures that the choices made regarding responsible investment are supported by the stakeholders.

Article 135(4) of the Pensions Act also requires pension funds to report in their Annual Report whether, and if so how, the 'environment and climate, human rights and social relations' are taken into account. Pursuant to the ISRI Covenant (see below), this reporting must be done in accordance with the OECD Guidelines and UNGPs by 1 June 2022. Therefore, the Pensions Act does not impose substantive requirements on the SRI policy, but does impose reporting requirements.

1.2. Investment ban on cluster munitions

Dutch pension funds are prohibited from investing in companies that produce, sell or distribute cluster munitions or crucial components thereof.

1.3. Investment ban Sanctions lists

Pension funds are obliged to exclude countries and companies that are on the EU and UN sanctions and embargo lists.

1.4. Dutch Corporate Governance Code

The Dutch Corporate Governance Code has been in existence since 2003 and has been revised twice since then. The most recent Code became legally binding on 1 January 2018. In addition to provisions for listed companies, the Code contains a number of principles that apply to shareholders, including institutional investors in particular, such as principle 4.3 on the casting of votes. For example, the code provides that institutional investors should disclose their voting policy annually on their website, report on the exercise of their voting policy and, at least once every quarter, on whether and how they voted at general meetings. The Code must be complied with according to the comply-or-explain principle. The obligations arising from this for PGB are as follows:

- Annual publication of exercise of voting policy on PGB website
- Publication of quarterly voting table on PGB website

1.5. IORP II

In 2019, IORP II, the new European Directive on Institutions for Occupational Retirement Provision (IORP) was implemented in the Netherlands in the Pensions Act and subordinate regulations. This directive requires pension funds to include ESG risks in their risk policies:

Pension funds should have risk management systems in place that focus on managing risks, including those related to the environment and climate, human rights and social relationships with regard to the investment portfolio and its management. The results of the methods for detecting and assessing the risks are described in the own-risk assessment.

In addition to including ESG and climate risk analysis in the investment process and risk management system in the Dutch implementation of the IORP II Directive, pension funds are required to:

- state how ESG and climate factors are taken into account in the investment policy;
- publish the investment principles;
- provide insight into layer 1 of the Pension 1-2-3 as to whether/how ESG criteria are taken into account in the investment policy. (Pension 1-2-3 offers a pension fund's participants layered information about their pension scheme and is obligatory under the Pension Communication Act);
- conduct a three-yearly own-risk assessment.

1.6. Shareholders' Directive II

The Shareholders' Directive II (AHR II), or the European Long-Term Involvement Directive, is part of a larger plan called the Capital Markets Union (CMU). The CMU is an initiative of the European Commission. The AHR II came into force on 1 December 2019. The CMU and AHR II were triggered by the financial crisis, which highlighted a number of problems in Europe that negatively impacted corporate governance: excessive focus on short-termism, poor communication of priorities between investors and their asset managers and under-reporting by investment companies. AHR II is an instrument through which European Member States seek to encourage shareholder engagement through legislation and regulations. Better involvement of shareholders should promote responsible behaviour by companies. Broadly speaking, this includes
AHR II points for various bodies in the financial market. At its core, asset managers are asked to align their investment strategies and decisions with the risk profile and long-term investment needs of their institutional investor clients.

Institutional investors and asset managers are also required to have an engagement policy in place, to be transparent about their engagement with listed companies in which they invest, and to communicate annually how they integrate shareholder engagement into their investment policy. In addition, institutional investors and asset managers must also disclose their voting record annually, explain significant votes and disclose how they use proxy advisory services.

The following obligations for institutional investors follow from this:

- having an engagement policy in place and making it public;
- disclosing elements from the agreement with the asset manager:
  - how an asset manager is encouraged to align its investment strategy and investment decisions with the profile of liabilities, including long-term liabilities;
  - how an investment manager is induced to make investment decisions based on the assessment of the medium- to long-term financial and non-financial performance of the investee company to improve its medium- to long-term performance;
  - how the methodology and time horizon used to evaluate the performance of the asset manager and the fee for the asset management services match the profile and duration of the liabilities, in particular the institutional investor's long-term liabilities, and take into account the absolute long-term performance; and
  - the duration of the agreement;
- publishing quarterly voting and engagement reports on the website,
- formulating engagement and voting policies and placing them on the website
- disclosing the use of an external party for proxy voting.

1.7. EU sustainability Bills

The European Commission is preparing legislation in the Sustainable Finance plan with the aim of supporting economic growth, while:

1. The pressure on the environment is reduced;
2. Pollution is tackled and greenhouse gas emissions are addressed;
3. Waste is minimised, and
4. Efficiency in the use of natural resources is improved.

Following the proposals, the European Council adopted two regulations, the Regulation on disclosures relating to sustainable investments and sustainability risks and the Regulation amending the benchmark regulation as regards EU Climate Transition Benchmarks, EU aligned Benchmarks and sustainability-related disclosures for benchmarks (Low Carbon Benchmark Regulation). The Regulation on disclosures requires pension funds to publish how they integrate ESG criteria into the investment process. Finally, the European Council and the European Parliament have agreed on a regulation for a taxonomy (classification system) indicating which economic activities can be considered environmentally friendly.

2. External Policy Directives, Covenant and Code

	Does the SRI policy follow guidelines?
1. UNPR	YES
2. UN Global Compact	YES
3. Paris Climate Agreement	YES
4. TCFD	YES
5. SDGs	YES
6. ISRI covenant (a.o. UN Guiding Principles & OECD Guidelines)	YES
7. Eumedion's Dutch Stewardship Code	YES

2.1. United Nations Guidelines

2.1.1. UNPRI

The United Nations Principles for Responsible Investment (UNPRI) are based on accepted international conventions, which are aimed at institutional investors. It is a list of six voluntary, ambitious principles that offer a number of possible measures for incorporating ESG aspects into investment practice. Pensioenfonds PGB has been a signatory since the end of 2016.
Signatories commit themselves to the following:

1. Integrating ESG issues into investment analysis and decision-making processes
2. Acting as an active shareholder
3. Promote openness and transparency.
4. Promoting acceptance and implementation of the principles in the investment community
5. Working together to increase the effectiveness of the implementation of the principles
6. To report on activities and progress in implementing the principles.

External managers are signatories to the UN PRI. If this is not the case, it must be sufficiently substantiated why not and how the partner has implemented alternative policies.

2.1.2. UN Global Compact

While the Principles for Responsible Investment deal with sustainable investment, the Global Compact is about sustainable business. It calls for the implementation of ten Universal Principles, as propagated by the United Nations, in the business operations of companies. Since 2008, Pensioenfonds PGB has an exclusion policy in place based on the Global Compact Principles. The fund excludes from investment companies that do not adhere to these principles in their business operations. The ten Universal Principles relate to four pillars; human rights, labour, environment and anti-corruption.

1. **Human Rights:** Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and, Principle 2: Make sure that they are not complicit in human rights abuses.
2. **Working conditions:** Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: The elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; Principle 6: and the elimination of discrimination in respect of employment and occupation.
3. **Environment:** Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: Undertake initiatives to promote greater environmental responsibility; Principle 9: and encourage the development and diffusion for environmentally friendly technologies.
4. **Corruption:** Principle 10: Businesses should combat all forms of corruption, including extortion and bribery.

2.1.3. Paris Climate Agreement

In December 2015, 195 countries and the EU agreed in the French capital of Paris to keep global warming well below 2 degrees Celsius at the end of the century compared to 1990. In order to realise this Climate Agreement, global net emissions of greenhouse gases (especially CO2) must be zero in the second half of this century.
If not, we will see an increase in the negative effects of further global warming worldwide, such as extreme weather, floods, but also drought and, in many countries, lower economic growth rates.
The Climate Agreement has consequences for PGB's pension fund investments. Changing government regulations can reduce the value of investments that are heavily dependent on fossil fuels. In addition, the fund must take into account the consequences of climate change itself, such as damage that may occur due to extreme weather.

2.1.4. TCFD

Around the Paris climate summit, the so-called Task Force on Climate-related Financial Disclosures (TCFD) was set up by the Financial Stability Board (FSB). The TCFD was commissioned by the FSB to develop standards for financial and non-financial institutions to report on how climate factors will impact their business operations. In June 2017, the Task Force on Climate-related Financial Disclosures issued the following recommendations for reporting in the financial sector:

- the inclusion of climate risks in governance, strategy and risk management;
- developing KPIs on GHG emissions and to monitor climate risks and opportunities;
- the inclusion of climate scenarios in the strategy for future-proofing.

2.1.5. SDGs

The Sustainable Development Goals aim to make the world a better place by 2030. It is the United Nations' proposal for a global agenda. The UN first formulated global development goals in 2000: the 8 Millennium Development Goals that ended in 2015. The 17 SDGs are a continuation of the former 8 Millennium Development Goals.

2.2. ISRI Covenant

The board of Pensioenfonds PGB signed the ISRI Covenant in December 2018. With the Covenant, the pension funds that have signed the Covenant choose an approach whereby the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs) are used as a basis to identify, prioritise and address ESG risks. They also choose to cooperate with non-governmental organisations (NGOs), trade unions and governments. In this Covenant, ESG risks are defined as risks to society and the environment. This complements and reinforces existing responsible investment policies of pension funds. The starting point of the parties involved is that, in this way, a contribution is made, directly and indirectly, in the short and long term, to the realisation of the objectives of the OECD Guidelines and UNGPs and thus also to the objectives of the SDGs. The parties have specific knowledge of and information on the key areas of labour rights (including freedom of association, collective bargaining and a decent wage), human rights (including children's rights, gender equality and land rights), climate change, nature, anti-corruption, health (including access to medicines) and animal welfare in the local context in which abuses may occur.

The Covenant covers the following points:

- ESG policy in accordance with OECD Guidelines and UNGPs
- Approach to due diligence in accordance with OECD Guidelines and UNGPs
- ESG integration on these aspects
- Reports on the effectiveness of engagement
- Publication of names of all listed shares within mandates and funds

In order to monitor progress, an annual questionnaire will be used, comparable to the VBDO benchmark. The baseline measurement was done in May 2019. The guidelines for texts in the contracts with asset managers and fiduciary managers and policy texts, as well as for the interpretation of a number of other agreements in the ISRI Covenant, were announced on 12 December 2019. These tools will be incorporated into the ISRI implementation plan.

2.3 Dutch Stewardship Code

In January 2019, the Dutch Stewardship Code for institutional investors, drawn up by Eumedion, came into force. The provisions in the Stewardship Code are related to the AHR II, but they differ in their application. The Stewardship Code focuses on pension funds, life insurers and asset managers that hold shares in Dutch listed companies, the AHR II applies to all pension funds, life insurers and asset managers within the European Economic Area (EEA) that hold shares in listed companies domiciled in EEA Member States. By complying with the principles of the Stewardship Code, shareholders and asset managers show the Dutch listed companies and society at large that they act as responsible and committed shareholders. It is expected from Dutch pension funds, among other things:

- That they vote and engage with Dutch companies,
- And that, as of the 2019 financial year, they will report on this in detail and with an explanation of the most important voting rounds.

ANNEX II: Deepening of SRI investment beliefs

In order to provide PGB's SRI investment beliefs with more substantiation, PGB goes further into the following SRI-related issues in its SRI policy:

A. **Climate:** PGB believes that climate change is currently insufficiently priced in by the market and this leads to investment risks and opportunities.

   Climate change is unprecedented, complex and long-term. PGB therefore believes that climate change is not properly priced in by the market, which creates investment risks and opportunities. PGB sees the investment opportunities and risks in climate change and the energy transition.

   Within the context of climate change, on the one hand, the risks are increasing due to the increase in more extreme weather conditions and the increasing risk of flooding. On the other hand, the opportunities are increasing because the urgency for climate adaptation, or the adaptation to climate change that makes a society less vulnerable to the consequences of climate change, is growing. PGB sees the risks of the energy transition with increasing legal requirements and disruptive technological changes within various business sectors. PGB also sees opportunities within the technological changes that are taking place. Responding to technological developments and encouraging the energy transition are investment opportunities for the fund.

B. **ESG:** PGB believes that integrating ESG criteria in the long term leads to a better risk-return profile of investments.

   Managing direct ESG risks reduces the financial risks in the investment portfolios. Direct ESG risks are defined as the risk of material losses in value for companies that do not pay sufficient attention to ESG criteria (DNB, 2016). For example, if a company is involved in corruption and fraud, the valuation of the company is immediately adjusted accordingly. In the academic literature, the financial materiality of direct ESG risks is demonstrated using ESG factors (Friede, Busch & Bassen, 2015; Sinha, Datta & Ziolo, 2019). Socially irresponsible companies that pay insufficient attention to ESG criteria are generally characterised by lower financial performance and poorer long-term strategic orientation (Friede, Busch & Bassen, 2015).

C. **Stewardship:** PGB believes that acting as a committed investor by means of voting and showing commitment leads to long-term value creation of the investments.

   Long-term investment stewardship reduces the risk with regard to investment portfolios. Through active investment stewardship, companies in the portfolios are encouraged to incorporate ESG considerations into their business operations. Active shareholdership reduces investment risks in the long term (Salvioni & Gennari, 2017). It also helps prevent and/or mitigate negative ESG impacts.

D. **Social responsibility:** PGB has an impact on the world around it and wants to make a positive contribution to society.

   The PGB strategy states that PGB is more than money alone. PGB wants to have a positive impact on its environment so that participants can enjoy their pensions in a social, clean and stable society in the future. Socially responsible investment is an essential part of giving substance to the "PGB is more than money alone" strategy.

ANNEX III: SRI and external manager selection

This annex contains the SRI framework for external manager selection and the related issues.

1. ESG of the strategy

The developments in SRI and the developments in ESG integration of the strategy are included under the heading for Planet in each manager selection process.

Investment Belief: "A socially responsible investment strategy that is in line with PGB's SRI policy".

	Green	Orange	Red
SRI PGB	The strategy corresponds to PGB's SRI policy: - The underlying investments are not on PGB's exclusion list. - Engagement is/can be effectuated. - The PGB ESG benchmark is followed. - Legislation (cluster munitions and sanctions lists) is followed.	The strategy is not entirely in line with PGB's SRI policy. The deviations are limited and the manager indicates that in the short term it will be in line with PGB's SRI policy.	The strategy is not in line with PGB's SRI policy.
ESG risks	The ESG risks in the strategy are managed. The ESG factor is integrated into the strategy and climate risks are managed.	The ESG risks are partly managed in the strategy. The manager is in the process of incorporating ESG risks into the strategy.	ESG risks are not managed in the strategy.
ESG reporting	The manager reports on ESG factors of the strategy.	The manager does not yet report on ESG, but is willing to develop ESG reporting.	The manager does not report on ESG and has no intention of developing ESG reporting.

2. ESG at the Manager level

The developments with regard to SRI and ESG integration at the manager level are included under the heading 'Parent' in each manager selection process.

Investment Belief: "A socially responsible manager who acts in line with PGB's SRI policy".

	Green	Orange	Red	Supporting obvious
ESG policy	The manager has an ESG policy in place. The manager follows the OECD and UNGP guidelines and has integrated these guidelines into the investment process. The manager performs due diligence in selecting companies and is able to report on this.	The manager does not yet have an ESG policy in place but is willing to develop one. The manager is integrating the OECD and UNGP guidelines into the investment process and due diligence in selecting companies or is willing to follow and report on the OECD and UNGP guidelines.	The manager has no ESG policy in place and has no intention of drafting an ESG policy. The manager does not integrate the OECD and UNGP guidelines into the investment process and due diligence in selecting companies, and is not prepared to follow and report on the OECD and UNGP guidelines.	• (Draft) ESG Policy • Description/presentation of investment process • Questionnaire response, questions on ESG integration • Observations on-site • Possibly additional evidence such as minutes from the Investment Committee
UNPRI	The manager is a signatory of UNPRI/UN Global Compact/Sustainable Development Goals, is in the process of signing (to be completed within two years from first measurement), or has imposed similar frameworks on himself.	The manager is prepared to comply with the UNPRI/UN Global Compact/ Sustainable Development Goals signing process, or is willing to impose similar frameworks on himself.	The manager is not a signatory of UNPRI/UN Global Compact/Sustainable Development Goals, and does not intend to sign. The manager has not imposed similar frameworks on himself and is not about to do so. The manager acts against the market conventions on responsible investing.	• UN PRI, UN Global Compact, Sustainable Development Goals signatory. • Demonstrable agreements on UNPRI, UN Global Compact, Sustainable Development Goals signatory process.
Engagement and voting, liquid	The manager has a proper engagement and proxy voting policy.	The manager is developing an engagement and proxy voting policy.	The manager has no engagement and proxy voting policy.	• If applicable: engagement policy and proxy voting policy • Agreements on the implementation of engagement/proxy voting in the contract • If the manager performs engagement/proxy voting himself: process, demonstrate operation of the process • Insight into (operational) incidents and solutions

ESG function	The manager has a final responsibility for ESG, has secured the ESG final responsibility with a team or committee, or the manager is in the process of securing the ESG final responsibility.	ESG accountability is not yet secured. The manager does intend to secure ultimate responsibility for ESG (with an officer, team, committee).	ESG accountability is not secured and the manager has no intention of securing ESG accountability.	• Organisation chart • Response RfP/DDQ

Corporate responsibility and ESG governance

1. As practise what you preach is an important value, how have you implemented corporate responsibility in your own organization?
2. How is the responsibility for the ESG strategy and implementation formally organized in your organisation?
3. ESG team: If you have a dedicated ESG team please fill out the attached table.

Name/Title/Function	Coverage area within the ESG team	Involved in which products / strategies?	Location	Experience with ESG (in yrs.)	Experience at firm (in yrs.)	Experience in industry (in yrs.)	Education

Compliance

1. The Dutch law prohibits investors to invest in companies related to cluster weapons and to invest in companies and governments on the UN, EU and Dutch sanctions lists. How does the Fund ensure compliancy with these national regulatory prohibitions?
2. The EU Directive IORP II: this directive was translated into Dutch law as per January 19 2019. The Directive focuses on risk management processes related to Climate and ESG. To comply with IORP II, PGB has to ensure that external manager has a process in place to assess Climate and ESG risks (as part of the investment process) and is willing and able to share the outcome of Climate and ESG risk assessments, process and reporting. Can you show us that you have a Climate and ESG risk process in place as part of the investment process? Please send us examples of your Climate and ESG risk assessments.
3. The EU Sustainable Finance Disclosure Regulation: as part of the 'EU Action Plan on Sustainable Finance' the Sustainable Finance Disclosure Regulation (SFDR) on sustainability risks came into effect on March 10, 2021. The SFDR establishes harmonized rules for financial market participants and financial advisors on transparency regarding the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information regarding financial products. An additional regulation has also been proposed (Regulatory Technical Standards (RTS)) which is expected to enter into force on 1 January 2022. These additional RTS prescribe how market parties must be transparent about the extent to which financial investment products are in line with the European sustainable taxonomy. Please inform us of your qualification according to article 6, 8 or 9 of the SFDR and send us proof of your ability to send us the ESG data required by the SFDR and the EU taxonomy.

ESG policy

1. Are you capable of implementing Pension Fund PGB's ESG policy, which exists of an exclusion list? Yes / No
2. Have you implemented an ESG policy (yes/no)? If so, please provide copies of the firm's ESG policy and any ESG-related reports. Does the firm have definite plans to initiate or increase ESG reporting? Have you implemented ESG in investment beliefs, policies and management systems using long-term value creation as a guiding principle?
3. Is the asset management firm a signatory of the United Nations Principles for Responsible Investment? If so, please explain when it was implemented, how it is being implemented and who is responsible for implementation. Please attach a copy of the most recent report from UN PRI on your firm. If not, are you currently in the process of signing up? Where do you currently stand with this?

4. Have you committed to the UN Global Compact? If so, please show how this is imbedded in your ESG policy and investment process.
5. Have you committed to the Un Sustainable Development Goals? If so, please show how this is imbedded in your ESG policy and investment process. How do you contribute to the positive ESG impact of your investments?

ESG risks

1. How do you integrate ESG risks into your investment process? Give examples where E, S, and G risks have been taken into account in your investment decisions. How do you identify, prioritize and monitor (potential) negative ESG impacts* of the investments, and involve relevant stakeholders? Do you use a scale for the gravity of negative ESG impacts of investments?

** Negative ESG impact according to the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/guidelines/) and UN Guiding Principles on Business and Human Rights (https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf).*

ESG active ownership

1. What is your policy regarding engagement and proxy voting? Can you give examples where your engagement and proxy voting activities led to value creation? Could you provide an overview of the engagement and proxy voting activities and results on ESG over the last year?
2. Do you participate in the Climate 100+ initiative and/or other collective engagement initiatives (e.g. under the UNPRI umbrella)? What does this participation mean for the company and what do you do with it?
3. How do you use your influence as an investor to promote the prevention or mitigation of negative ESG impacts* of investments? Give 5 examples.
4. How do you use your influence as an investor to stimulate listed companies in which you invest and which cause or contribute to negative ESG impacts*, based on time-bound questions to prevent and/or mitigate negative impact and/or stimulate recovery and /or offer recourse? Describe your process.
5. Give 5 examples of consequences (e.g. (partly) divestment) of cases of listed companies prioritized on the basis of the severity of their negative ESG impacts* where the use of your influence as an investor has not led to sufficient progress within the specified time frame and how you considered the impact of those consequences on relevant stakeholders.

** Negative ESG impact according to the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/guidelines/) and UN Guiding Principles on Business and Human Rights (https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf).*

ESG reporting

1. Pension Fund has committed to the IMVB Convenant (The Responsible Business Conduct Agreement as published on https://www.imvoconvenanten.nl/-/media/imvo/files/pensioenfondsen/pension-funds-agreement.pdf). How do you monitor and report the ESG results of your ESG policy according to the standards of this agreement?

   - The methodology used to identify potential and actual negative ESG impacts;
   - Potential and actual negative ESG impacts identified across your different investment portfolios;
   - Companies/activities that are excluded from the investment universe;
   - Companies/activities with which engagement has been conducted;
   - The SMART objective(s) of engagement per business/activity (including providing redress and/or redress if applicable);
   - The progress of current engagement processes;
   - The results of completed engagement processes;
   - Decisions that have been taken and associated motivation with regard to (temporary) reduction of investments or divestments, and how possible negative ESG impacts for injured parties have been taken into account.

2. Pension Fund PGB has subscribed to the commitment by the financial sector to the Climate Agreement (https://www.klimaatakkoord.nl/documenten/publicaties/2019/07/10/commitment-van-de-financiele-sector) and is supporter to the Task force of Climate-related Financial Disclosures (TCFD). Can you comply with the TCFD Recommendations (https://www.fsb-tcfd.org/recommendations/) on climate disclosures related to Governance, Strategy, Risk Management and Metrics & Targets?

   - ***Governance:*** Disclose the organization's governance around climate-related risks and opportunities.
     a. Describe the organization's governance around climate-related risks and opportunities.
     b. Describe management's role in assessing and managing climate-related risks and opportunities.

   - ***Strategy:*** Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.
     a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
     b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
     c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

   - ***Risk Management:*** Disclose how the organization identifies, assesses, and manages climate-related risks.
     a. Describe the organization's processes for identifying and assessing climate-related risks.
     b. Describe the organization's processes for managing climate-related risks.
     c. Describe how processes for identifying, assessing, and managing climated-related risks are integrated into the organization's overall risk management.

   - ***Metrics & Targets:*** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
     a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
     b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
     c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

3. Do you have quality checks and/ or an internal quality review process for your ESG, Climate and/ or SDG data? If so, what is the standard against which it is verified?

4. Did your Audit department investigate the process of ESG/ Climate/ SDG data in the past two year? If so, what are the results of this investigation? Do you produce other forms of assurance reports that can be used to determine the quality of this dataset?

ANNEX IV: Overview of Responsible Investment Pension Federation

Embedded in law:
- Pension Fund Code
- EU legislative proposals on sustainable financing
- International treaties: cluster munitions
- (Inter)national sanctions
- IORP II Directive
- Dutch Corporate Governance Code
- Shareholders' Rights Directive II (SRD II)

Policy-related:
- International treaties: other
- ILO Declarations and Principles
- OECD Guidelines
- Paris Agreement
- Sustainable Development Goals (SDGs)
- UN Global Compact (UN GC)
- UN Guiding Principles (UNGPs)
- UN Principles for Responsible Investment (UN PRI)

Voluntary:
- Climate Action 100+
- Eumedion: Dutch Stewardship Code
- IMVB Covenant Pension Funds
- Institutional Investors Group for Climate Change (IIGCC)
- International Capital Market Association (ICMA)
- Spitsbergen Ambition
- Association of Investors for Sustainable Development (VBDO).

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SRI POLICY
PENSIOENFONDS PGB

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