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RESPONSIBLE INVESTMENT
Annual Report 2010

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 an annual report. In compiling the PGGM Annual Responsible Investment Report 2010, we have adhered to the international reporting guidelines of the Global Reporting Initiative.

We have assessed the Annual Responsible Investment Report 2010 and declare that the information contained therein presents a true and fair view of the reality.

Zeist, 25 March 2011

Management of PGGM Vermogensbeheer B.V.

Else Bos	Jac Kragt
Director	Director

Foreword

The financial markets became embroiled in a European government debt crisis in 2010. The cloud of ash from an Icelandic volcano brought the world's air traffic to a standstill and an oil drilling platform sank in the Gulf of Mexico after an explosion. The volcano eruption left losses worth hundreds of millions of euros and thousands of stranded passengers, including a number of our colleagues. The explosion on the oil drilling platform killed 11 people, caused an environmental disaster and triggered a steep fall in the stock's market price.

Features common to all these crises were their major social and financial impact and the fact that many people had previously rated their probability as low. Although investors can never assess risk with 100% accuracy, for PGGM Vermogensbeheer B.V. these crises underlined the need to invest with the fullest possible knowledge. That is why we attach such importance to responsible investment. It gives us insights into risks relating to environmental, social and corporate governance aspects (ESG) in our portfolio, and into the opportunities which these factors may also present.

This year we have therefore taken major strides in incorporating ESG in our investment decisions. Material ESG factors have been assessed across all investment departments. As a result, we now know more, for example, about the financial impact of biodiversity and human rights violations on specific investment categories.

We engaged in discussions with companies concerning their operations in conflict-affected areas. We flew to Sudan with a group of institutional investors in order to see how international businesses operate on the ground. We advised the companies we visited among other things to be more transparent about safety and to improve their dialogue with stakeholders.

We also invested on behalf of our clients in a wind park in the Irish Sea and entered into discussions with European Commission policymakers on the consequences of climate change.

As a crowning achievement, we won an international industry award for responsible investment. At the TBLI/IPE conference we were honoured to receive the ESG Leaders Award for the best ESG asset manager. Our clients were also prize winners. Pensioenfonds Zorg en Welzijn, for example, for which PGGM Vermogensbeheer B.V. provides the asset management, was declared the winner for the fourth consecutive time in the responsible investment benchmark study conducted by VBDO, the Dutch Association of Investors for Sustainable Development. Pensioenfonds voor de Architectenbureaus is now also in the top ten.

At a time of increasing calls for openness, it is important to be clear about what we are doing. The purpose of this annual report is therefore to account for our Responsible Investment Policy. This policy remains fully in force in 2011, to ensure that our clients are able to pay pensions that have been managed responsibly.

Jac Kragt
Chief Investment Officer

Summary

PGGM consciously takes account of environmental, social and corporate governance (ESG) factors in all its investment activities. We call this responsible investment. For PGGM it is a way of fulfilling our responsibility towards society and our clients. We believe that a high and stable return go hand in hand with responsible investment. We do this for and in discussion with the pensionfunds whose assets PGGM manages.

PGGM Vermogensbeheer B.V. (hereinafter ‘PGGM’) incorporates responsible investment in its general investment policy. For us, responsible investment covers a range of investment activities. It concerns the things we do, such as incorporating ESG factors in our investment analyses, engaging with companies and voting at shareholders’ meetings. It also involves excluding companies in order not to invest in companies that are incompatible with our identity.

Responsible investment is not a status quo that can be attained. PGGM therefore constantly explores how we can improve our Responsible Investment Policy and activities. To that end we undertook various activities and engaged in discussions on our policy with our clients, non-governmental organisations and political parties in 2010. By being open about our activities we also seek to account to a wide public on the implementation of our Responsible Investment Policy, in recognition of which we received the ESG Leaders Award at the TBLI/IPE conference. This annual report provides an overview of the activities conducted in 2010.

Investment decisions

Responsible investment involves taking account of environmental, social and corporate governance factors – along with all other financial criteria – in our investment decisions. In 2010 we surveyed all the material ESG factors across all investment departments. These are factors which have a significant financial impact on the underlying investment. Examples are the effects of climate change, such as floods and CO_2 taxes on the risk and return of real estate and infrastructure. Another example is how the governance of a fund or company is organised in private equity and the resulting effect on the return. Having completed this survey in 2010, we now know more about the financial impact of ESG factors on our investments.

Some departments had already surveyed these factors and took further steps to integrate these factors into their investment decisions and analyses in 2010. For example, the private real estate department required its external managers to report on sustainability criteria, including energy and water consumption. We also took specific account of ESG criteria in the sale of AlpInvest.

Targeted ESG investments

Targeted ESG investments are investments which not only contribute financially to the return for clients but also generate a social return. Our clients thus contribute to the resolution of sustainability problems in the world.

The various investment teams selected a number of new targeted ESG investments in 2010. The infrastructure team acquired an interest on behalf of our clients in the Walney offshore wind park in the United Kingdom. PGGM is making this innovative direct investment in co-operation with DONG Energy, the global leader in offshore wind parks. The team also increased its commitment to the BNP Clean Energy Fund, which invests among other things in wind parks and hydroelectric power plants. The private equity team also invested in the IFC African, Latin American and Caribbean Fund, through which IFC stimulates the economic growth of developing countries, creates jobs and enables people to escape poverty. We also increased the mandate for the Responsible Equity Portfolio, with which PGGM aims to achieve a responsible return by investing in listed companies.

There are also a number of targeted ESG investments which were already in the portfolio prior to 2010, including microfinance investments. In this area we took the initiative during the year, together with Her Royal Highness Princess Máxima of the Netherlands and four microfinance fund managers, to establish the 'Principles for Investors in Inclusive Finance'. This is a guide to responsible investment in the microfinance/inclusive finance sector. Through AlpInvest we also invested further in a number of cleantech funds. In addition, the real assets portfolio includes a forestry fund in which we are co-operating with nature conservation organisations. In the structured credit portfolio we are sharing the credit risk of various project financing structures, including in the field of sustainable energy.

During the year under review PGGM worked with Erasmus University in Rotterdam to gain an understanding of the social added value of targeted ESG investments. The researchers developed a method to assess the expected social effects of an investment.

By the end of 2010 the commitments to targeted ESG investments had grown to €3.7 billion.

Voting

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

PGGM usually votes by proxy at shareholders' meetings. Due to the number of companies in which we invest, it is not possible to attend all meetings. We attended six shareholders' meetings in the Netherlands in 2010. The meetings at which we voted in 2010 represented 99% of the total number of annual and extraordinary shareholders' meetings of the companies in the managed portfolio.

We devote particular attention to agenda items relating to the environment, social aspects and good corporate governance. Such attention does not always lead to a change in behaviour. Our voting enjoys differing degrees of success. In the case of Abercrombie & Fitch and Urban Outfitters we voted in favour of a shareholder resolution to draw up a code of conduct based on ILO guidelines, which are standard in the field of labour law. They cover matters such as the right to join a trade union and measures to combat discrimination and child labour. Although both resolutions attracted above-average support from shareholders, they both failed to secure a majority of votes.

We also abstained from voting on shareholder resolutions on tar sands at BP and Shell. We do not see investments in tar sands as a sign of leadership. However, the resolutions did call for more information on the social and environmental aspects of extracting oil from tar sands. Both companies had already largely answered this call, so the resolutions did not represent immediate added value. We expect these companies to show leadership in the climate debate and sought to underline this position by abstaining. We therefore remain in discussions with these companies.

At Motorola and Occidental Petroleum we voted against pay resolutions. Both companies are under fire for having excessive pay levels and a distorted relationship between pay and the company's performance. We believe among other things that variable pay should be linked to the company's performance over the long term. The majority of shareholders ultimately voted against the resolution on directors' pay.

Engagement

We see it as our responsibility to address companies and markets about their policy and activities. We call this engagement, whereby we seek to bring about improvements in environmental, social and corporate governance matters in the belief that this will ultimately contribute to a better social and/or financial return on our investments.

In our engagement activities we pursue four main themes: human rights, climate change, corporate governance and health.

On the human rights theme we focused during the year on companies involved in human rights violations and on companies operating in repressive regimes. Through its participation in a United Nations platform, PGGM was closely involved in drawing up a guide to companies operating in conflict zones during the year. On the basis of this document we gained information on companies operating in phosphate extraction in Western Sahara and visited Sudan. In the latter case we wanted to assess the applicability of the guidelines and make specific recommendations to companies with regard to transparency on matters including communication with stakeholders.

We also conducted discussions with Wal-Mart. Partly as a result of our engagement, Wal-Mart made a board committee responsible for supervising social issues, such as diversity and trade union relations. At Schlumberger, a service provider in the oil and gas sector, we insisted on the importance of maintaining a standard which helps companies to guarantee safety in and around their operations in accordance with human rights principles. The consortium for which Schlumberger works is now incorporating this standard in training courses for its safety personnel. In the case of Shell we raised questions concerning oil spills in Nigeria and the payment of bribes by a company contracted by Shell.

On the theme of climate change we organised a conference in Brussels at which PGGM and other members of the Institutional Investors Group on Climate Change engaged in extensive discussions with European Commission policymakers. We called for a policy to ensure that climate-friendly investments are at least as attractive as those causing a greater environmental impact. The conference led to a lively discussion which revealed that the message from institutional investors was still not being heard very loudly in Brussels. The Commission said it was open to further discussions on our recommendations.

We see it as our responsibility to address companies and markets about their policy and activities.

We also looked critically at tar sands. We see that plans are also afoot to extract oil from tar sands outside Canada. We raised critical questions on this subject with the companies concerned.

We also spoke to BP several times in 2010 following the explosion on the oil rig in the Gulf of Mexico. We raised questions with BP concerning working conditions, safety and environmental care. This was a controversial issue for BP. Partly as a result of our questions, BP decided to strengthen its board committee on safety by including a safety expert, a former admiral in the US armed forces. The safety culture within BP nevertheless remains a cause for concern. PGGM believes BP should examine it and make changes where necessary. We will remain in discussion on this subject in 2011.

For corporate governance we looked in particular at the exercise of voting rights and best practices in the Netherlands, United States and Asia. The usual system in the United States is that directors are not appointed by a majority vote, but that a single vote in favour of a director is often sufficient. We believe that a simple majority should be the standard. We also discussed this matter with the US auction house Sotheby's. Partly as a result of our discussions, Sotheby's announced that it would present a resolution to introduce majority voting as standard at the next annual general meeting (AGM). Another achievement during the year was our persuading the ING Trust Office to hold an annual meeting of holders of depositary receipts. That is important, because depositary receipts carry no voting rights and the trust office exercises the voting right on the shares. Partly as a result of this annual trust office meeting, holders of depositary receipts now have a greater say. In many markets the usual practice is not to count all votes at an AGM but to vote by acclamation. As a result not every share confers a right to one vote. In Taiwan we discussed this matter with Taiwan Semiconductor Manufacturing Company Ltd. Partly as a result of our dialogue, TSMC counted all votes on each agenda item at the AGM we attended during the year and presented the result at the meeting.

On the health theme our focus in 2010 included the pharmaceutical and food industries. Access to medicines was one of the subjects. For example, PGGM played a part in creating the Access to Medicine Index, which compared the initiatives taken by pharmaceutical companies to promote to access to medicine. We also initiated a dialogue with the food industry on the subject of obesity during the year. We called on companies in the sector to explain their own role and risks in the obesity debate. PGGM's aim is that food producers will develop a better view of the health risks and opportunities.

Legal proceedings

PGGM sometimes conducts legal proceedings on behalf of our clients, both in the Netherlands and abroad, in order to recover damages and enforce good corporate behaviour. We also monitor proceedings conducted by other investors. In the United States, shareholders can claim damages and/or bring about improvements in corporate governance by means of class actions. In 2010, however, the Supreme Court of the United States curtailed foreign investors' right to bring class actions. PGGM is endeavouring to reverse this ruling. Further steps were also taken in 2010 in the Bank of America case which we are pursuing on behalf of one of our clients. The total proceeds of class actions for PGGM's clients in 2010 amounted to €19.1 million (cumulative total since 2004).

Exclusions

We aim to avoid making investments on behalf of our clients which do not suit them and us. Therefore we do not invest in controversial weapons (such as nuclear weapons, cluster munitions and landmines). We also refrain from investing in companies which violate fundamental human rights and labour rights if they are unwilling to speak to us or demonstrate no improvement. As of the end of 2010, we therefore excluded 38 companies, 33 due to controversial weapons and five due to human rights violations, as well as five government bonds. We added Vedanta Resources to the exclusions list in 2010 due to the social and environmental problems relating to its mining activities in India.

Outlook for 2011

For PGGM, responsible investment means knowing what we are investing in and taking appropriate action. With results that include an exclusions policy covering 98% of assets under management, the implementation of 1,557 engagement projects and voting at 99% of shareholders' meetings, it might appear that our task is already complete. But responsible investment is more than just a question of quantity.

We shall therefore take further measures to integrate ESG in investment decisions in 2011. We shall also complete our research on the social added value of targeted ESG investments. Sectors presenting high ESG risks, such as the mining sector, will also be critically assessed in order to prioritise our engagement projects with the companies concerned. In addition, PGGM will evaluate its engagement strategy and activities.

RESULTS AND TARGETS OF KEY PERFORMANCE INDICATORS (AT YEAR-END)	2008	2009	2010	TARGET 2011
Responsible investment integration*	98%	98%	98%	≥ 98%
Comprising:				
▪ **ESG integration**				
Started or completed in phase 1 Inventory (as % of total assets under management)**		56%	100%	
Started or completed in phase 2 Implementation (as % of total assets under management)**		20%	56%	
▪ **Targeted ESG investments**				
Volume of targeted ESG investments/commitments (€ million)	2,400	2,551	3,711	
% of targeted ESG investments in total assets under management***	3.3%	3.0%	3.6%	
▪ **Exclusions**				
Number of excluded companies	30	33	38	
% of total assets under management covered by Exclusions Policy***	98%	98%	98%	≥ 98%
Excluded companies relative to FTSE All World benchmark	0.9%	1.2%	1.2%	
▪ **Voting**				
Number of shareholders' meetings (AGMs and EGMs) at which votes were cast***	4,792	4,678	4,722	
Number of votes cast	40,618	40,819	42,186	
Number of AGMs and EGMs at which votes were cast as % of total number of AGMs****	92%	99%	99%	≥ 98%
Number of AGMs and EGMs at which votes were cast as % of Voting Focus List	99%	99%	100%	≥ 98%
▪ **Engagement**				
Number of companies engaged with indirectly (through F&C)***	569	495	574	
Number of companies engaged with directly***	34	48	72	≥ 72
Value of companies engaged with as % of managed equity portfolio	48%	48%	51%	
▪ **Legal proceedings concerning share ownership**				
Active proceedings	2	3	3	
Proceeds of class actions	€ 3,674,956	€ 6,574,827	€ 2,771,000	
KEY DATA				
Volume of total assets under management (€ billion)***	72	88	103	
Volume of total managed equity portfolio (€ billion)	28	36	40	
Number of companies in total equity portfolio	4,340	4,248	2,971	

Note: no targets are applicable for some of these components. The number of companies to be excluded, for example, is not an aim in itself, because the volume of assets under management at the end of 2011 is not known, for example. Except for the application of the exclusions policy, targets are therefore not stated here as percentage of assets under management.

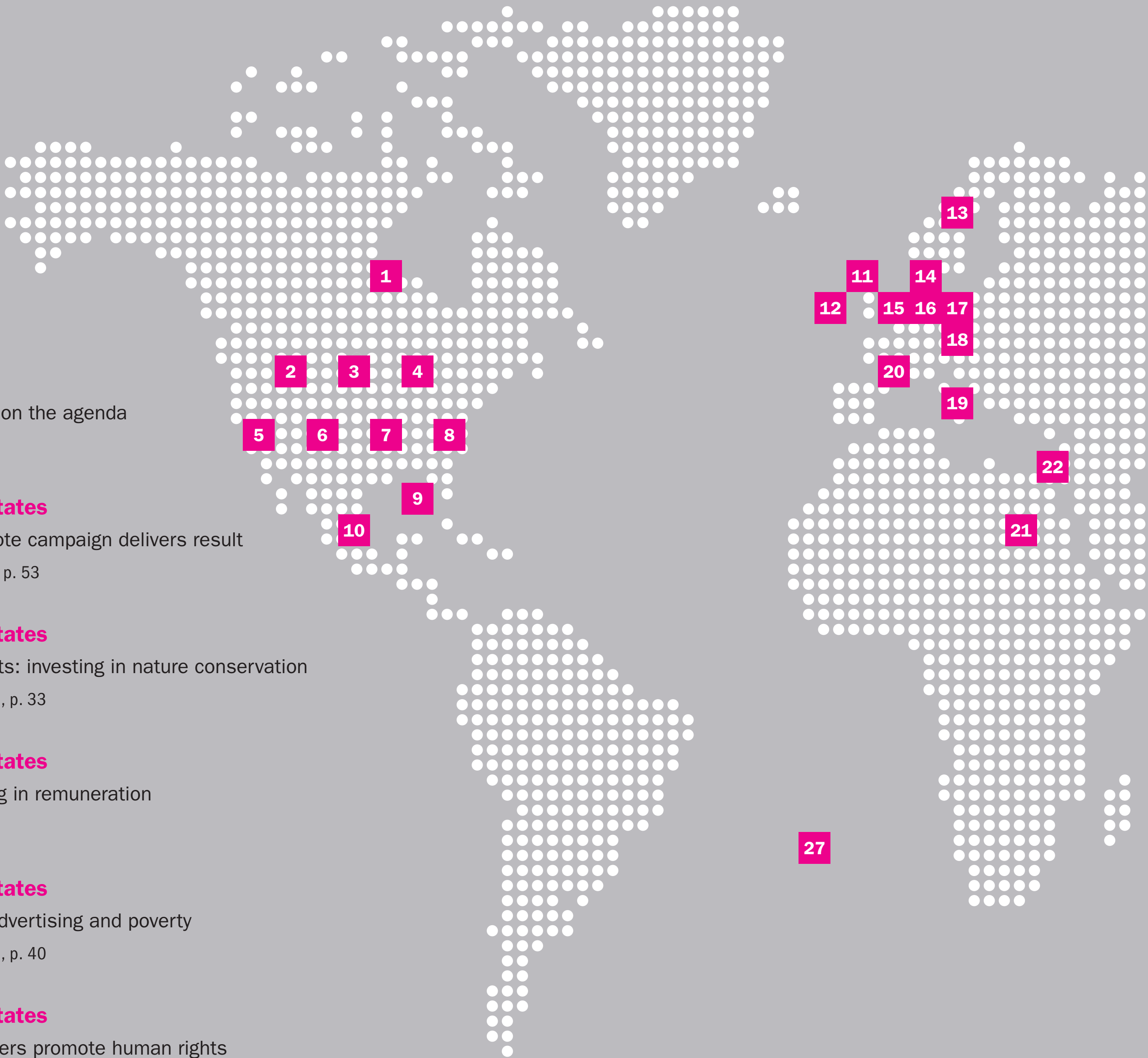
* This indicator describes the quantity of responsible investment activities and the extent of application to the total assets under management. Not every underlying component applies to the total assets under management. For each component, quality improvement is a continuous process.

** This indicator was used for the first time in 2009. No figures are available for prior years.

*** 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 2011 target and the 2010 and 2009 results concern the number of meetings at which votes were cast excluding blocking markets.

Examples on the map



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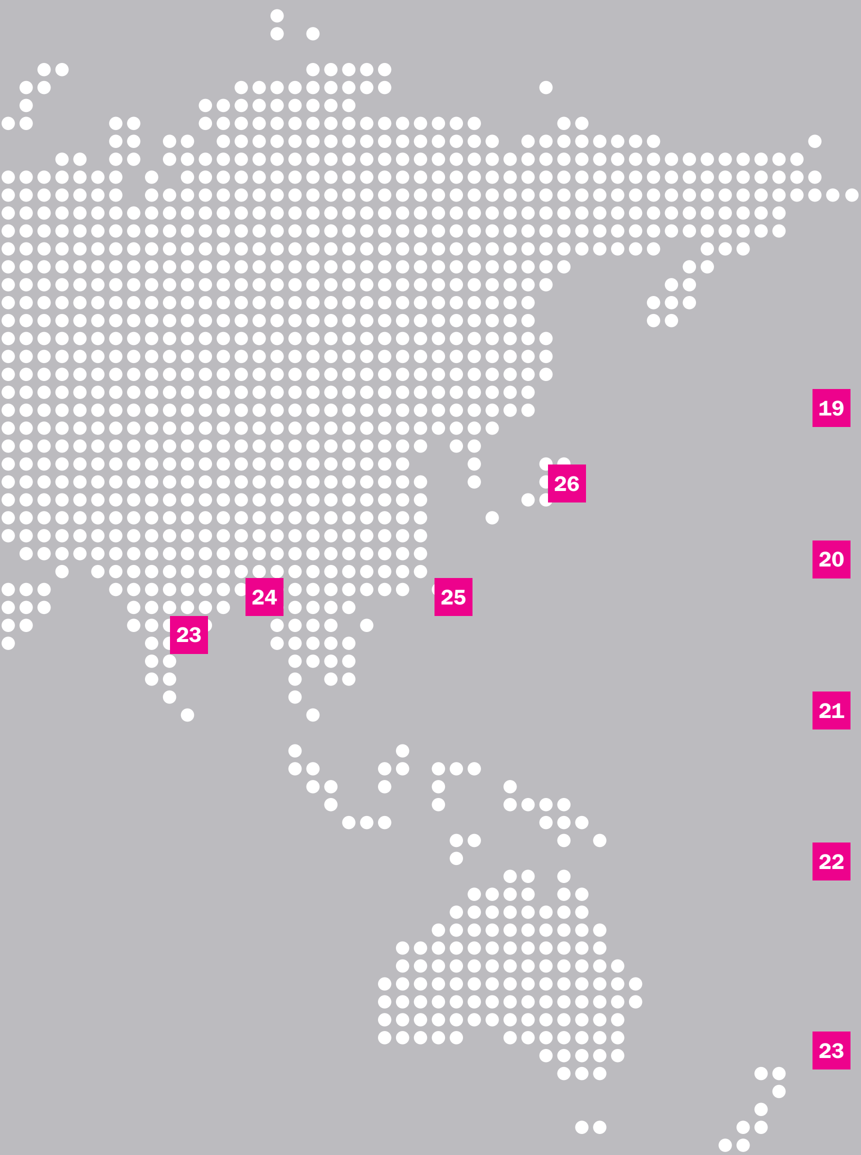

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1 Policy

PGGM consciously takes account of the impact of environmental, social and corporate governance (ESG) factors in all its investment activities. We call that responsible investment.

1.1 Responsible investment policy

PGGM integrates responsible investment into its investment policy. We are convinced that responsible investment contributes to a high and stable return. We also believe that we have a social responsibility, and responsible investment fulfils that responsibility. We took the first steps in this direction in 1985, when we were still part of what is now Pensioenfonds Zorg en Welzijn. Over the years this grew into our Responsible Investment Policy, which we updated in 2010.

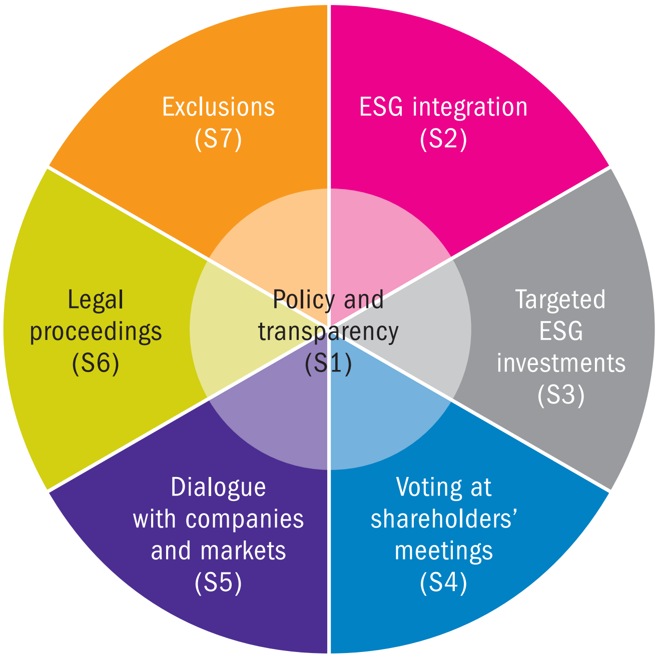
The key points of the Responsible Investment Policy are:

- active backing for the conviction that financial and social returns can go hand in hand;
- actively representing clients to contribute to the quality and continuity of companies and financial markets;
- expressing our identity in terms of the limits of the investment policy and choosing specific focus areas on the basis of that identity;
- encouraging partners in the financial sector to practise responsible investment;
- accountability with regard to targets, activities and results in the field of responsible investment.

The key points are in line with the United Nations Principles for Responsible Investment (PRI). In 2006, PGGM, which was then still part of what is now Pensioenfonds Zorg en Welzijn, was a member of an international working group of institutional investors that took the initiative to establish the PRI.

As a reflection of our identity, PGGM has opted to focus attention on specific areas: health, good corporate governance, climate change, human rights and weapons.

PGGM implements the policy in various ways. For us, responsible investment concerns both investment decisions (particularly ESG integration and targeted ESG investments) and wider investment activities (such as exclusions, voting, engagement and legal proceedings). However, these activities, do not apply equally to all investment and funds which PGGM manages.



1.1.1 Exclusions policy

The exclusions policy lays down firm conditions for our investments. The aim of the exclusions policy is to not invest in companies and/or government bonds which do not fit in with the identity of PGGM and/or its clients. The exclusion criteria are focused on controversial weapons and human rights (see section 7).

1.1.2 Listed Equity Ownership Policy

The Listed Equity Ownership Policy (LEOP) defines general guidelines for investments in listed companies. It specifies the rights and obligations in respect of the funds and discretionary portfolios in which our clients invest. We believe that using these rights contributes to the quality and continuity of companies. It also creates shareholder value in the short and long term. As a representative of our clients, we speak and vote at shareholders' meetings. We also engage constructively with companies. As a last resort, possibly at the request of the client, we institute legal proceedings or exclude companies completely.

1.2 Transparency

PGGM believes it is important to account for our activities by reporting and engaging in public debate and assessing expectations among our clients and stakeholders. We aim to be a reliable partner for a wide group of stakeholders, including our clients and their participants, the companies in which we invest, public authorities, trade unions, social organisations and the local community. To that end we maintain a dialogue with various stakeholders. We discussed our policy with our clients and various non-governmental organisations and political parties in 2010.

1.2.1 Reporting

Reports are important in order to ensure transparency with regard to our policy, activities and the results achieved. The PGGM Annual Responsible Investment Report is the main public document on responsible investment. We also publish the PGGM Quarterly Report on Active Share Ownership, in which we describe our voting and engagement activities and results.

PGGM supports complete openness with regard to investments. Every year we give our clients an opportunity to provide their participants with details of the investment portfolio and the parties with which PGGM is doing business on their behalf. PGGM believes that its clients' participants are entitled to know how their pension monies are being invested. That means participants must be able to see how the investment policy is being implemented in concrete terms in their pension fund's investment portfolio.

We have therefore developed a publication policy for clients, and PGGM helps its clients to take the initiative by adopting a concrete and progressive approach in a spirit of openness.

PGGM also provides information online showing how we have voted on each agenda item at shareholders' meetings. We provide an explanation for each agenda item on which we vote against the management's recommendation.

Public information on responsible investment can be found on the PGGM website (www.pggm.nl) in both Dutch and English.

1.2.2 Public debate

PGGM employees once again took part in frequent discussions and debates on responsible investment in conferences, panels and working groups in the Netherlands and abroad during the year. We do this because we set great store by two key points of our policy: accounting for our activities and acting as a partner to encourage the financial sector to practise responsible investment. We also talk to stakeholders about our policy.

1.3 Embedding in the organisation

Practically the entire investment organisation has a role and responsibility in the implementation of the Responsible Investment Policy. The various investment departments, for example, are responsible for ESG integration in investment decisions.

For support purposes, PGGM has a set up a special Responsible Investment (RI) department, which is devoted entirely to responsible investment. RI is responsible, for example, for maintaining and updating the policy and for ensuring transparency with regard to responsible investment. In addition, the department conducts engagement and voting activities. RI also plays a supporting role in integrating ESG factors in investment decisions. The department additionally operates as a knowledge centre for PGGM and assists with internal and external communication on responsible investment.

1.4 Responsible Investment Advisory Board

In 2010 PGGM set up a Responsible Investment Advisory Board to obtain independent advice and discuss issues relating to responsible investment. The members are Prof. Dr. C. Flinterman, Mr C. Homan, Mr R. Willems and Prof. Dr. R. Bauer, who are responsible respectively for human rights, weapons, climate change and responsible investment, particularly for the related financial aspects.

2 Investment decisions

PGGM believes that social and financial returns go hand in hand. We therefore take account of environmental, social and corporate governance factors in our investment decisions, along with all other financial criteria.

We call that ESG integration, by which we mean 'systematically adding material ESG factors to existing investment processes'. 'Material ESG factors' are those which have a significant financial impact on the underlying investment. Examples include the effects of climate change, such as floods and CO_2 taxes on real estate and infrastructure, and how the governance of a fund or company is organised in private equity.

PGGM further developed and intensified its ESG integration activities in investment processes in 2010, making ESG more financially integrated.

2.1 ESG integration process

There are major differences between investment categories, for example due to the nature of the investment, the term, the degree of risk and liquidity. All these elements play a part in determining which ESG factors are material and to what extent. This means that ESG integration is fulfilled in different ways in the various investment categories. In 2009 PGGM developed a structured approach comprising three phases which are completed for each investment category, the so-called 'ESG integration process':

Phase 1: Inventory
This involves drawing up an ESG framework for each investment category. We investigate and determine which and to what extent environmental, social and corporate governance factors affect the financial performance of the underlying investments.

Phase 2: Implementation
In this phase we determine how the ESG framework in phase 1 is reflected in the investment process. Examples are drafting a specific responsible investment policy, adding ESG criteria which have a financial impact on the selection of investments or adding an ESG section in the due diligence process.

Phase 3: Internalisation
In this phase ESG factors form a natural part of the overall investment process. This means among other things that ESG factors are part of the normal routine of the investment process and are periodically assessed and adapted if necessary.

PGGM's internal asset managers are the owners of the individual integration processes. A team of specialists from the Responsible Investment (RI) department supervises and supports these processes. ESG integration is thus a joint endeavour by the individual investment teams and RI. The advantages of the chosen model are that integration processes are implemented simultaneously across all investments, further raising awareness of ESG among investors. It also guarantees that all relevant investment and ESG knowledge is deployed.

2.2 ESG integration in each phase

Not all investment categories had progressed to the same extent through the integration process at the beginning of 2010. Some categories, for example, were already in the implementation phase (e.g. private real estate, public real estate), while others were still at the start of the inventory phase (phase 1) (e.g. hedge funds, insurance). Our target for 2010 was for all investment categories to complete the inventory phase.

2.2.1 Inventory phase

An ESG integration workshop took place in June 2010 as a prelude to the individual surveys. The heads of the investment teams took part, together with representatives of the RI department and the senior management. The aim of the workshop was to present best practices and exchange experiences gained during the ESG integration process. The investment teams gave all the presentations themselves and supervised the 'work sessions'.

In order to provide the most complete and consistent framework possible for each investment category, an ESG integration template was developed. This covers a number of ESG questions which have been answered for all individual investment categories. The final part of each survey was an assessment of which follow-up steps might be necessary in phase 2, implementation.

All investment categories had been put through the inventory phase by the end of 2010. For each portfolio, investors and the RI department investigated which ESG factors were financially material and to what extent. A description was also given of the follow-up steps required during the implementation phase (phase 2). All the findings were documented in the ESG integration templates. This enabled us to meet our predefined targets for 2010.

The above surveys led PGGM to conclude that follow-up steps were required for most investment portfolios. No follow-up steps were necessary or possible in the case of seven portfolios. Generally, there are different reasons as to why follow-up steps are not required. For example, the ESG factors may not be sufficiently material, may already be implicitly included in the investment process or may be material but incapable of inclusion in the current investment process. We shall of course continue to follow internal and external developments with regard to ESG integration for these investment processes. If necessary, we shall specify follow-up steps.

Our approach has generally raised awareness and increased knowledge of ESG integration. Much clearer interaction also takes place between the asset managers and the ESG specialists than was previously the case. Our ESG specialists are also more involved in the various investment strategies. For example, ESG specialists are regularly deployed prior to investment decisions, and asset managers in turn take part very regularly in external ESG working groups (such as the PRI Working Group on Private Equity, the PRI Working Group on Real Estate). Furthermore, RI is permanently represented on PGGM's umbrella Investment Committee. PGGM thereby guarantees that important ESG investment decisions become a permanent part of the assessment.

► 'ESG factors in infrastructure', p. 27

2.2.2 Implementation phase

We also carried out projects within the implementation phase in 2010.

Real estate

Developments in real estate policy: in 2009 we developed and published a specific ESG policy for the real estate investment category. This is known as the Responsible Investment Policy for Real Estate (RIRE). We require our fund managers to comply with this policy when selecting new private real estate funds. We also specify such compliance in contracts with the fund managers. All new fund managers endorsed our RIRE policy in 2010. In the case of the existing fund managers, we pursued an active engagement process on this policy in 2010. We carry out periodic assessment interviews with each fund manager, during which we clearly state how the fund manager should take account of ESG factors within the respective funds. Our RIRE policy serves as a guide in this regard.

Developments in research into real estate funds: an international project was launched in 2009, partly in co-operation with the University of Maastricht, in order to investigate the extent to which real estate companies and funds implement sustainability in their investment processes. The first research results were published in January 2010. On the basis of this research, the 'Global Real Estate Sustainability Index' was published in 2010. This enables comparisons of sustainability performances for real estate investors, real estate funds and real estate companies and indicates where improvements are necessary. In view of the large amount of publicity inside and outside the real estate sector and the positive reactions of all parties involved, we can declare both the research and the published index a great success. It has raised awareness further in the real estate sector. It has also provided an important motive for the sector to move to a more sustainable approach to real estate investments. PGGM decided to further institutionalise the 'Global Real Estate Sustainability Index' and became a founding partner of the foundation set up to periodically update, publish and distribute the index.

Change to reporting guidelines for private real estate funds: from 2010 PGGM requires its fund managers to report periodically on a set of sustainability indicators (such as energy and water consumption). To this end an initial set of indicators was developed in 2010, which has been added to the official reporting requirements.

Real Estate Social Issues Checklist: we developed a 'Real Estate Social Issues Checklist' in 2010 with the aim of identifying potential 'red flags' with regard to human rights and other social issues. Before the real estate team carries out an investment, they go through the checklist and identify potential risks, for example in the field of human rights, and action is taken where necessary.

As well as improving the sustainability performances of its own investments, it is very important for PGGM to give an impetus to the international real estate sector as a whole. That is one of the reasons why PGGM has decided to become a founding member of the International Sustainability Alliance (ISA). ISA works with a number of other leading parties in the real estate sector to develop standard guidelines on the measurement of sustainability indicators. The various parties record the results obtained for each building in an independent database which will be used to develop benchmarks.
► 'A green office block', p. 27

Real assets

The real assets portfolio principally comprises investments in forestry and agriculture. We mainly invest on behalf of our clients in land and the primary production process. Revenues from production (wood and agricultural commodities) and the rising value of the underlying assets provide the return. The investments are long-term (often exceeding 10 years). We also completed the inventory phase for real assets, on the basis of which a follow-up project was launched in 2010. We developed an ESG questionnaire, which was sent to the external managers of our investments. The aim of the questions was to produce a baseline of ESG factors for each investment.

Private equity

We invest in private equity worldwide through AlpInvest Partners N.V.

It was in 2006 that PGGM began to draw attention to ESG factors within AlpInvest. The continuing dialogue bore fruit. AlpInvest has demonstrated that it also wishes to play a leading role in the field of responsible investment. It has its own 'Corporate Social Responsibility (CSR) Policy' and is a signatory to the UN PRI. As part of its CSR policy, AlpInvest automatically includes ESG factors in its investment and portfolio management process. These factors form an integral part of the due diligence process, for example. AlpInvest also holds discussions with private equity funds on ESG matters. AlpInvest was involved in a number of initiatives in the private equity sector in 2010, including a private equity working group on the Principles for Responsible Investment (PRI) and the Institutional Limited Partner Association (ILPA). PGGM monitors these activities of AlpInvest and participates in the PRI working group itself as a co-founder. PGGM has also been a formal member of ILPA since 2010.

At the beginning of 2011 we announced that AlpInvest was to be acquired by a strategic joint venture between Carlyle and the management of AlpInvest. We expressly included ESG criteria in the due diligence process and in the questions which we posed to potential buyers.
It was important to us that a potential buyer supported AlpInvest's leading role in the ESG field. PGGM and APG will remain the principal clients of AlpInvest after the acquisition, and AlpInvest will continue to accommodate fully the investment policies of APG and PGGM and their respective clients, notably regarding Environmental, Social and Governance-matters. In addition Carlyle, AlpInvest, APG and PGGM have agreed to pursue a collaborative initiative through which they will share ideas and practices regarding how to enhance Carlyle's integration of environmental, social and governance issues into its controlling private equity investments throughout its portfolio.

2.3 Other activities

Other activities were developed for various portfolios in 2010 in order to integrate ESG in investment decisions. Some examples are:

- Infrastructure, Private Equity, Emerging Market Credits: RI specialists were involved in due diligence processes in relation to various investment proposals. For example, additional questions on human rights were raised with the intended external manager prior to a new investment.
- Project on climate change: jointly with a number of other large investors, a project was launched in 2009/2010 which investigated whether and how climate change impacted (or should impact) various investment categories, as well as the allocation to the various investment categories.
  ► 'Climate change in the strategic asset allocation?', p. 26

- In 2010, PGGM investigated possibilities for developing a more responsible beta equity portfolio. By investing in fewer companies, PGGM expects to gain a better insight into the companies in the beta equity portfolio. Active share ownership could also be more effective as a result of holding larger positions in each company. In addition, PGGM would be able to greatly reduce the likelihood of involvement in controversial activities of companies in which we invest on behalf of PGGM and its clients. These three components (greater insight, more effective share ownership, ESG in selection) can result in a more responsible equity portfolio. One of the important interim findings is that merely reducing the number of companies in the portfolio does not necessarily mean there will be less involvement in controversial activities. It is therefore important to include ESG in the selection process. In 2011 we are investigating how this fits in with our beta equity strategy.

2.4 Outlook

Major steps were taken in 2010 in further integrating environmental, social and governance factors into the investment processes. All teams are engaged in the integration process, further raising awareness and knowledge of ESG. All portfolios have now gone through the inventory phase, and follow-up steps have been specified where necessary. This has provided a solid ESG foundation, which provides a good starting point for ESG integration in 2011 and beyond.

In December 2010 PGGM began the preparations and planning for our ESG integration activities in 2011. On the basis of the ESG frameworks, all individual investment teams planned follow-up steps for 2011. RI will support the teams where necessary.

KEY PERFORMANCE INDICATORS WITH REGARD TO ESG INTEGRATION IN 2010

				TARGET
	2008**	2009	2010	2011
Started or completed in phase 1 Inventory (as % of total assets under management)*		56%	100%	nvt
Started or completed in phase 2 Implementation (as % of total assets under management)*		20%	56%	nvt

* Definition of started/completed ESG integration processes: asset classes are included in 'started/completed' if a *structured* and *documented* integration process has been started or completed. The inventory phase was completed for all assets under management in 2010, so a target is no longer relevant for 2011. Since the assets under management at the end of 2011 are not known, no targets are stated as a percentage of assets under management for the implementation phase.

** This is a new indicator which was used for the first time in 2009. No figures are available for prior years.

Examples of investment decisions

Climate change in the strategic asset allocation?

At the end of 2009 PGGM began taking part in a project in which leading institutional investors and experts investigated how climate change could best be factored into the strategic asset allocation. This project was completed at the start of 2011.

This is a complex issue. The experts therefore used a scenario analysis in which they developed four scenarios up to the year 2030. The scenarios take into account the costs of avoiding climate change, the cost of adaptation to the consequences of climate change and physical consequences. Political decision-making and the price of CO_2 emerged as the major forces in these scenarios. The research group then translated the four scenarios into economic parameters appropriate for the asset allocation process, such as inflation, interest rates and volatility. These were then used to assess the sensitivity to climate change in each investment category and region.

On the basis of the developed model, the researchers produced a custom report for all participating institutional investors assessing the various risk factors on the basis of their existing asset allocation. Details of how these risks could be reduced were given for each scenario.

The consequences of climate change for the various investment categories were unfortunately found to be conflicting in some cases in the various scenarios. This conflict and the high degree of diversification of PGGM's existing portfolio limit the applicability of the model. In view of the composition of the project group, we can confidently conclude that the integration of climate change into the strategic asset allocation would offer no added value at present. The scenarios do nevertheless include descriptions of developments around the world which can be used for risk management.

The project also makes clear that policymakers play a crucial role in the consequences of climate change. It thus provides valuable input for our dialogue with various policymakers and politicians amid demands for greater certainty in terms of policy.

► 'Climate policy in Europa', p. 55

ESG factors in infrastructure

Several ESG factors play a role in infrastructure investments. Our survey shows that biodiversity, human rights, climate change and stakeholder management among others can have a material effect on the investment. For example, failure to involve the local population in infrastructure projects can lead to lawsuits, delays and hence lost income. Climate change, and particularly regulations or taxes on CO_2 emissions, can have major effects on the income and/or expenditure of power plants, toll roads or airports, for example. This can also lead to a major change in the comparative assessment between conventional and renewable power generation.

A green office block
► continued from 2009

In 2009 we reported on the redevelopment of an office block in Frankfurt. We urged a German real estate fund to carry out the redevelopment as sustainably as possible. There were various scenarios for the block, ranging from refurbishment to complete demolition and rebuilding. PGGM's recommendation was to carry out the redevelopment while maintaining the existing structure, as this was the most sustainable option. The project was an ambitious one: to make the offices the greenest redevelopment in Germany. This sustainability ambition is paying off: the block has now been leased and sold for a higher price, even before the start of the redevelopment.

3 Targeted ESG investments

Targeted ESG investments are investments which not only contribute financially to the performance for clients but also generate a social return. Our clients thereby contribute to the resolution of sustainability problems in the world.

Targeted ESG investments can be made in all investment categories. The various investment teams are responsible for their selection and are supported by the Responsible Investment department. The total commitments rose to €3,711 million in 2010. These involved demarcated mandates. Naturally, investments in ordinary mandates and portfolios also have social relevance, such as investments in solar panel manufacturers and hospitals, but these are not included in the figures presented in this annual report.

3.1 Targeted ESG mandates

3.1.1 Responsible Equity Portfolio

PGGM's aim with the Responsible Equity Portfolio (REP) is to achieve a responsible return at least equal to the benchmark by investing in listed companies. The portfolio is constructed on the basis of an in-depth analysis of fundamental financial factors combined with ESG factors.

2010 was the second full year of investment for REP. The team was built up further and the portfolio was increased to €1.9 billion, invested in companies across Europe and North America. For 2011 the REP mandate has been expanded further to €3 billion.

REP fulfils its responsibility as a co-owner of companies by engaging in regular dialogue with the companies in which it invests. In this way REP plays a role in the company's reporting to its shareholders and other stakeholders. REP also aims to achieve a better investment and social result, for example by encouraging a sustainability strategy or promoting business transparency. To this end REP occupies a position among the top 20 shareholders.

3.1.2 Structured credit

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

As part of a transaction with Banco Santander, we are sharing in the credit risk of its European project finance portfolio. Banco Santander doubled the size of the transaction this year. One of the unusual features of this transaction is that a large proportion of the underlying loans (currently 54%) relate to the financing of alternative energy, such as solar and wind power. PGGM is also investing in another transaction with Banco Santander, Boadilla I. 67% of the portfolio of this transaction relates to the financing of alternative energy.

3.1.3 Microfinance

Microfinance is the provision of a range of financial services (microsavings products, microinsurance, micropensions) for poor populations in developing countries. Microcredit, the provision of small loans, is part of microfinance. Nowadays we increasingly speak of inclusive finance, because that emphasises the social objective of microfinance, namely opening up access to financial services for population groups that are excluded by the traditional banking sector.

At the end of 2010 PGGM had $54 million invested in inclusive finance. Investments in the sector by large operators such as PGGM are usually made through microfinance funds, which in turn finance microfinance institutions. Microfinance institutions can best be described as small, local banks.

For the microfinance industry 2010 was a year that revealed the toll taken by the financial and economic crisis. Increasingly critical views were expressed in 2010 with regard to the socioeconomic benefit of microcredit. Some critics drew attention to unintended negative socioeconomic consequences of microcredit in the form of an excessive debt burden for the end-customer. Other critics cited the pursuit of profit by shareholders in microfinance institutions, which could lead to excessive interest charges for the end-customer. On the other hand, access to capital is crucial for economic growth in every region, both developed and developing, and for every population group, both rich and poor.

Together with Her Royal Highness Princess Máxima of the Netherlands and four microfinance fund managers, PGGM took the initiative to establish the ‘Principles for Investors in Inclusive Finance’ at the beginning of 2010. These are a guide to responsible investment in the microfinance/inclusive finance sector. The seven principles clearly state that responsible institutional investors in, and managers of, microfinance funds must have a central concern for the long-term interests of the end-customer and the long-term development of the sector. The Principles for Investors in Inclusive Finance were drawn up in co-operation with parties including the UN PRI and launched amid great interest in January 2011.

3.1.4 Private equity

In 2007, PGGM, which was then still part of what is now Pensioenfonds Zorg en Welzijn, issued a separate mandate to AlpInvest to invest worldwide in clean technology (‘cleantech’) through private equity.
In constructing the portfolio, the aim was to achieve a balance between funds focused on innovative technologies and funds investing in more developed and proven technologies. Both categories improve the efficient use of natural resources and reduce the impact of energy consumption on the environment. The aim of these investments is to achieve a high return in the medium to long term. Currently a total of €413 million has been committed to nine specialist funds in America and Europe. By the end of the first half of 2010 investments had been made in 86 companies through these nine funds.

PGGM also invested on behalf of its clients in the IFC African, Latin American and Caribbean Fund in 2010. With this investment IFC is opening up possibilities for poor people in developing countries in Africa, Latin America and the Caribbean, based on a conviction that developing the private sector is the most effective way to promote growth, create jobs and enable people to escape from poverty in developing countries.

3.1.5 Infrastructure

Three investment funds in the infrastructure portfolio invest exclusively in sustainable energy projects. In 2010 these funds added one new investment, in an offshore wind park in the Irish Sea. The commitment to the BNP Clean Energy Fund (previously: Fortis Clean Energy Fund) was also increased by €50 million in 2010. This fund invests among other things in solar energy, hydropower and wind parks.

As of the end of 2010, 9% of the infrastructure portfolio was invested in sustainable energy. That amounts to 17.5% on the basis of the committed capital.

In a number of countries a debate is under way on the subsidy policy for sustainable energy due to the problems relating to government finances. In Spain, for example, which generates a relatively large amount of sustainable energy from wind and sun, the result was an adjustment to the subsidy schemes for solar energy. That immediately led to a reduction in the value of a number of projects in which we invest (through funds). The Spanish government's measures drew a concerned international response. After all, it amounted to intervention in an existing policy. It has undermined confidence in the existing schemes and there is also a risk that other countries may reconsider their own subsidy policy.

3.1.6 Real assets

Three investments in the real assets portfolio are targeted ESG investments: the Climate Change Capital Carbon Fund (€45 million invested), which invests in carbon credits, the GMO Long Horizons Forestry Fund (€123 million invested) and the Conservation Forestry Parallel Fund II-B (€38 million invested), which both invest in forestry.

3.1.7 Strategic portfolio and relationships

The strategic portfolio consists of investments with relatively large interests in companies or funds which have a strategic nature or are focused on co-operation. An example of a relevant ESG investment in this portfolio is the interest in Triodos Bank (3.1%).

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

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

3.2 Pursuit of social returns

PGGM knows how its targeted ESG investments have performed in financial terms, but until recently we had little insight into the social return, in other words the added value for society. PGGM therefore worked last year with researchers associated with Erasmus University in Rotterdam to develop a methodology providing insight into the social added value of targeted ESG investments.

The funds have hitherto provided only limited information on the sustainability performances of projects or organisations in which they invest. The researchers have therefore developed an approach that enables an assessment to be made of the expected social effects of an investment. At present these assessments are based on academic studies. However, the methodology has been developed in such a way that once more specific data becomes available it will indicate the actual social return achieved.

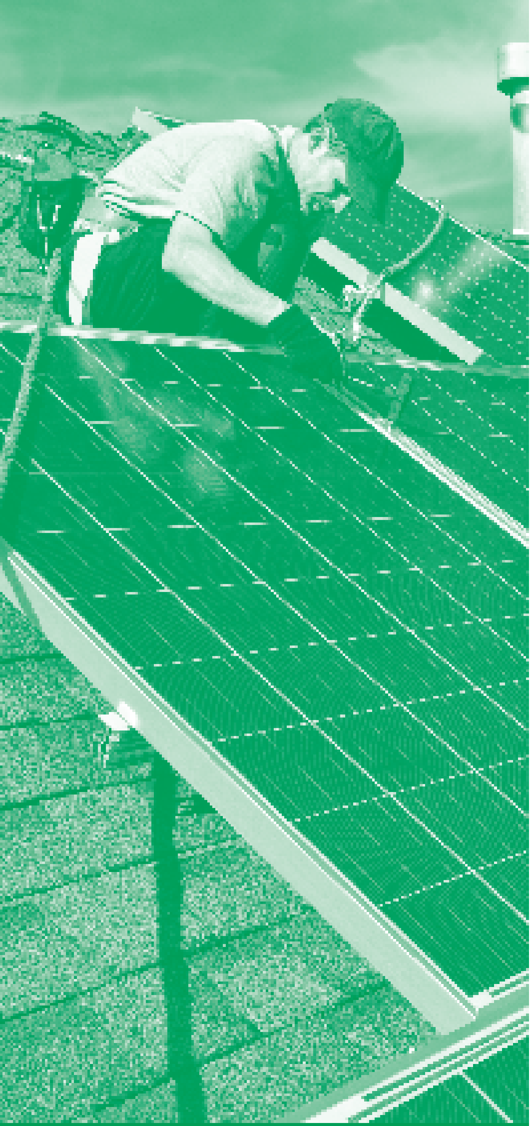
3.3 Outlook

PGGM is also looking to make targeted ESG investments in all investment categories in 2011. We also aim to gain greater insight into the (expected) social return of the targeted ESG investments and to report on it in 2011.

KEY PERFORMANCE INDICATORS RELATING TO TARGETED ESG INVESTMENTS

	2008	2009	2010	TARGET 2011
Targeted ESG investments (€ million)	2,400	2,568	3,711	–
As % of total assets under management*	3.3%	2.9%	3.6%	nvt

* Since the assets under management at the end of 2011 are not known, no targets are stated as a percentage of assets under management.



Examples of targeted ESG

REP: Novo Nordisk

At the end of 2010 REP had a €120 million interest in Novo Nordisk, the global leader in insulin for diabetes patients. Novo Nordisk aims to achieve its financial results in a sustainable way, which means the company is a good fit in the REP portfolio.
Novo Nordisk conducts activities in the field of access to medicine. This is a programme that supplies medicines to people in areas with a severe lack of medical assistance. Partly for that reason Novo Nordisk has built up a strong position in China, the country with the largest number of diabetes patients in the world.

AlpInvest: sustainable solar energy

AlpInvest invested in Metallkraft through Climate Change Capital Private Equity in February 2010. Metallkraft has introduced a unique and proprietary process for the recovery of spent slurry used in solar wafer cutting. This technology results in recycling 100% of previously hazardous waste into new products with no waste streams, thereby achieving a significant cost saving on slurry (up to 40%) which equates to saving 10% of the total finished wafer cost.. Compared to its primary competitor, Metallkraft's process also offers additional environmental advantages, because no chemicals are used. The company has built its expertise on years of research and development in the area of silicon and spent slurry recycling. With a number of new projects in the pipeline, Metallkraft is well positioned for future growth.

IFC: Mexican hotel chain

Hoteles City Express is a Mexican company with a leading position in the hotel chain market. The company raised new equity from a group of investors in September 2010. These included the IFC African, Latin American and Caribbean Fund (ALAC Fund), in which PGGM invests. City Express is using the raised capital to accelerate growth in Mexico and expand its activities in Central and South America.

City Express will increase the supply of cheaper business hotel accommodation with high international quality and safety standards. This will generate higher employment. The creation of employment in the logistics chain around the hotels and particularly in the construction phase will also indirectly create a large number of jobs for the region.

The company is also commended for its innovative policy with regard to the environment. One of its hotels recently won an award (the LEED – EB – O&M Silver Certificate) from the United States Green Building Council (USGBC). The hotel was awarded the certificate for its active policy on the conservation of natural resources and protection of the environment. The USGBC is currently assessing 18 other hotels with a view to certifying them on the basis of the LEED (Leadership in Energy and Environmental Design) standard.

IFC and the ALAC Fund have also assisted the company with the training of personnel for environmental management. In addition, they have looked critically at the company's treatment of its environment. The company has also developed a training course for its employees known as 'Código Verde' (Code Green), relating to waste recycling to meet the requirements of IFC. Finally, the company has set up a water recycling programme in co-operation with IFC.

Infrastructure: offshore wind energy

PGGM acquired a 24.8% interest in the UK's Walney offshore wind park jointly with Ampere Equity Fund in December 2010. The offshore wind segment of sustainable energy is growing strongly. For this innovative direct investment PGGM is working with DONG Energy, the global leader in offshore wind parks. DONG Energy has developed the project and continues to own 50.1% of Walney, with the British company Scottish and Southern Energy owning the remaining 25.1%.

Walney is currently under construction. The estimated costs are approximately £1 billion and it is scheduled to enter service at the end of 2011. The wind park comprises 102 turbines with a total capacity of 367 MW, sufficient to provide sustainable energy for approximately 320,000 British homes. The project is using two different Siemens turbines with rotor diameters of 107 and 120 metres. The highest point of the rotor blade is 150 metres above sea level.

Real assets: investing in nature conservation

Conservation Forestry (CF), a forestry investment manager, is an excellent example of an organisation that understands the importance of ESG factors and is committed to sustainable forestry. In 2010 CF acquired a block of forest that is an important habitat for the endangered 'Red Hill Salamander' (RHS). As part of the purchase CF worked with The Nature Conservancy of the United States in order to sell part of this habitat to the State. Over a substantial part of the block CF is also working with the US Fish and Wildlife Service under a Habitat Conservation Plan to protect the habitat of the RHS. This agreement identifies three habitat zones and specifies the required forestry methods for each zone. The forestry regulations range from no logging in the optimum habitat to selective logging in the marginal habitat.

4 Voting

Voting is one of the most important rights a shareholder has.

We therefore vote on the basis of our own judgement at shareholders' meetings.

In that way we contribute to the attainment of good corporate governance.

We also focus attention on resolutions in the environmental and social area.

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

We therefore consider 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.

PGGM has formulated a custom voting policy known as the PGGM Investments Global Voting Guidelines. As far as possible, these specify how PGGM will vote on a large number of subjects that are liable to arise on the agenda at shareholders' meetings.

4.1 Voting policy

PGGM's objective is to vote on all shares of all companies in the portfolio, although voting at all meetings is not always possible. For example, there may be errors in the voting chain, and voting in some markets (so-called blocking markets) is excessively complicated for investors. Because of the latter point, our policy is not to vote in blocking markets (with the exception of our Voting Focus List (see below)). Blocking markets are those in which shares are blocked for a certain period if the investor uses his voting right. The shares cannot be traded during this blocking period. PGGM is endeavouring to have blocking abolished in markets such as Belgium and Italy.

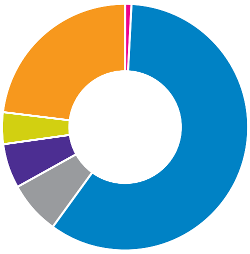
PGGM votes on the basis of a Voting Focus List. We devote particular attention to the meetings of companies on this list. We vote in respect of the entire position on the basis of our own judgement, even if this leads to the blocking of the shares. Companies are placed on the Voting Focus List if they fulfil specific criteria.

The 2010 Voting Focus List comprises companies which:

- are listed on the Dutch stock exchange or have a clear Dutch background; or
- are included on PGGM's Engagement Focus List; or
- are among the largest listed holdings (>3% of voting rights); or
- are part of the internal real estate portfolios and have been selected by the Listed Real Estate Department; or
- make up one of the 10 largest holdings in euros; or
- are part of the Responsible Equity Portfolio.

BREAKDOWN OF SHAREHOLDERS' MEETINGS BY REGION IN 2010

BREAKDOWN OF MANAGEMENT RESOLUTIONS IN 2010 (BY CATEGORY)



BREAKDOWN OF SHAREHOLDER RESOLUTIONS IN 2010 (BY CATEGORY)

The Voting Focus List comprised a total of 103 listed companies in 2010. When the list was drawn up, they represented a total value of over 25% of all listed investments.

In the case of companies on the Voting Focus List, we vote actively and on a well-informed basis by:

- attending the shareholders' meetings ourselves;
- being represented at the meeting by another institutional investor; or
- voting by proxy.

PGGM was invested in over 4,000 listed companies on behalf of its clients at the beginning of 2010. The wide geographic spread means it is impossible to attend all meetings. We therefore vote mainly by proxy at shareholders' meetings. PGGM voted by proxy at all shareholders' meetings outside the Netherlands (and if necessary within the Netherlands) in 2010. A number of meetings of Dutch listed companies were attended in person by representatives of PGGM. In a few cases we also attended meetings of foreign companies.

ISS usually votes on our behalf at shareholders' meetings of companies which are not on the Voting Focus List. The votes cast by this service provider are based on a custom policy which accords with our own voting policy. Hence we vote in accordance with our own policy and not in accordance with ISS's usual voting instructions. On over 21% of the agenda items in 2010 PGGM issued voting instructions which differed from those usually recommended by ISS. Voting differently is not an objective in itself. The figure illustrates that PGGM makes its own assessments.

We monitor all shareholders' meetings in advance to identify controversial agenda items, and in such cases we vote ourselves. In order to vote on an informed basis, we use the voting recommendations of specialist voting service providers (such as ISS, Glass Lewis and Shareholder Support Services) as well as other sources.

It is important to bear in mind that on average PGGM holds only 0.15% of a company's issued shares in its portfolio. Such percentages mean we are often unable to influence the result of the vote.

Securities lending
PGGM lends shares (a practice known as securities lending) partly in order to earn lending fees. When shares are lent, the lender is unable to use the voting right. PGGM is opposed to the lending of shares to third parties who borrow them only in order to use the voting right. Therefore we do not lend shares of companies on the Voting Focus List around the time of shareholders' meetings, for example. We also stipulate in the agreement that the lent shares may be recalled at any time.

4.2 Implementation of the voting policy
The bulk of the agenda items on which we voted in 2010 were proposed by the boards of the companies concerned. This was the case in 97.6% of all agenda items. Resolutions were received from shareholders themselves in relatively few cases, amounting to only 2.4% of the agenda items.

The 25 Dutch[1] listed companies represented in the portfolio in 2010 held a total of 28 AGMs and EGMs. PGGM attended six of these in person and voted by proxy at the remaining 22 meetings. PGGM opts for personal representation if there are agenda items on which we wish to explain our views at the meeting. We may also require more information on the management's motivation and points of view.

We send written explanations to companies if we vote against the management's recommendation. In the case of companies on our Voting Focus List, we give the company a more detailed explanation of what we consider to be best practice. Our aim is to increase the effectiveness of our voting. PGGM sent a total of 43 such 'vote against management' letters in 2010. In the past these letters have yielded valuable insights and leads for a continued dialogue with these companies, but in 2010 they achieved relatively little. In 2011 it was therefore decided to send these letters only if they provided points of departure for engagement. Companies and other stakeholders wishing to know why we are voting against the management on a particular agenda item can read our grounds on the website.

PGGM voted in favour of the agenda item in 29,139 cases and against in 10,472 cases in 2010. We abstained on 2,575 agenda items. Although we prefer not to abstain, in the case of many directors' appointments (mainly) in the United States it is the only alternative to a vote in favour. Since it is common practice in the United States for all board members to be reappointed annually, this number is relatively high compared to other regions. 2,264 (88%) of PGGM's abstentions in 2010 concerned such votes.

► 'Majority Vote campaign delivers result', p. 52

AGGREGATE RESULTS OF VOTING ON MANAGEMENT RECOMMENDATIONS

	2008	2009	2010
Number of meetings at which votes were cast	4,792	4,678	4,722
Number of agenda items on which votes were cast	40,618	40,819	42,186
Number of votes in favour of management recommendation	35,610	34,393	28,627
Number of votes against management recommendation (including abstentions)	5,008	6,426	13,559

AGGREGATE RESULTS OF VOTING ON MANAGEMENT RECOMMENDATIONS

	2008	2009	2010
Number of votes in favour of management recommendation	87.7%	84.3%	67.9%
Number of votes against management recommendation (including abstentions)	12.3%	15.7%	32.1%

1. When describing a company as 'Dutch' we have applied our own definition in this annual report, as a result of which the following five companies, although having their registered office in the Netherlands, are not considered to be Dutch holding companies: James Hardie Industries, New World Resources, STMicroelectronics, X5 Retail and Qiagen. All these companies have no significant activities in the Netherlands and are not listed on the Dutch stock exchange.

BREAKDOWN OF VOTING BEHAVIOUR BY AGENDA ITEMS IN 2010

Management resolutions	41,192
Shareholder resolutions	994
Total number of agenda items	**42,186**
Votes in favour of agenda items	29,139
Votes against agenda items	10,472
Abstentions on agenda items	2,575
Total number of agenda items	**42,186**
Votes on agenda items in line with management recommendation	28,627
Votes on agenda items against management recommendation	13,559
Total number of agenda items	**42,186**
Votes in favour of shareholder resolutions	610
Votes against shareholder resolutions	309
Abstentions on shareholder resolutions	75
Total number of shareholder resolutions	**994**

VOTING RESULTS BY ESG THEME

	Environment and Health			Social conditions			Corporate Governance		
	2008	**2009**	**2010**	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**
Number of agenda items	79	88	116	66	32	46	40,473	40,699	42,024
Number of votes IN FAVOUR OF agenda item	47	56	66	36	22	28	35,796	34,747	29,045
Number of votes AGAINST agenda item	21	30	44	25	10	18	3,788	4,652	10,410
Number of abstentions	11	2	6	5	0	0	889	1,300	2,569
Number of votes in favour of management recommendation	21	29	40	25	10	15	35,564	34,354	28,572
Number of votes against management recommendation (including abstentions)	58	59	76	41	22	31	4,909	6,345	13,452

The number of dissenting votes amounted to 24.8% of all the votes we cast. That represents a rise of almost 116% compared to 2009 and is partly due to a number of changes in the voting policy. For example, we automatically voted against candidates combining the posts of chairman and CEO and against any form of variable pay for non-executive and supervisory directors. Another cause of the increase is that PGGM votes worldwide against the appointment or reappointment of non-executive and supervisory directors if they have served in that role for longer than 12 years.

Because such dissenting votes often did not have the desired effect, it has been decided to modify some of the viewpoints set out above. For example, PGGM now votes against variable pay only in the case of two-tier boards. Where there are two boards, the members of the upper tier have a mainly supervisory role. That is in contrast to single-tier boards (with executive and non-executive directors) in which the non-executive directors not only have a supervisory role but are also responsible for the company's strategy and financial performances. The 12-year limit has also been modified. In 2011 PGGM is considering non-executive and supervisory directors who have been active in such a role for more than 12 years in the same company only as non-independent (and will therefore not necessarily cast a dissenting vote).

We are informed weekly of agenda items concerning environmental, social or corporate governance factors. We devote additional attention to such resolutions. In determining our voting choice, we carefully assess the possible impact of these ESG factors, considering their impact on long-term value creation, the continuity of the company's activities and the ESG performances of the company. We support shareholder resolutions unless:

- the resolution does not accord with our voting policy;
- the resolution is not relevant to the company;
- the executive board sufficiently diminishes the relevance of the resolution, or has other convincing reasons for not supporting it.

The number of agenda items voted on relating to environmental and social conditions increased further in 2010 (by 32% and 44% respectively).

A total of 214 meetings took place in blocking markets. In accordance with our policy we did not vote at these meetings. Votes were not cast at 28 meetings due to the absence of ballots, incorrectly lent positions or other reasons. These cases therefore involved deficiencies, which we endeavour to keep to a minimum.

SHAREHOLDERS' MEETINGS IN 2010

Votes cast	4.722
No votes cast due to blocking	214
No votes cast for other reasons	28

Votes were cast at 99% of all annual and extraordinary shareholders' meetings in 2010. The target of voting at more than 95% of meetings was therefore achieved. In the case of companies on the Voting Focus List, PGGM voted at 100% of all meetings in 2010.

4.3 Outlook

The Voting Focus List for 2011 comprises 74 companies (2010: 103 companies). In 2011 PGGM will 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. Aside from the Voting Focus List we shall also draw up a list of the largest companies with the aim of voting internally, actively and in an informed way on more than 50% of assets under management in 2011. In this way we aim to increase the quality of our voting by providing more scope to deal with particular situations and gain our own insights.

KEY PERFORMANCE INDICATORS RELATING TO VOTING

	2008	2009	2010	TARGET 2011
Number of shareholders' meetings (AGMs and EGMs) at which votes were cast	4,792	4,678	4,722	N/A
Number of votes cast	40,618	40,819	42,186	N/A
Number of AGMs and EGMs at which votes were cast as % of total number of AGMs and EGMs	92%	99%[1]	99%[1]	≥ 98%[1]
Number of AGMs and EGMs at which votes were cast as % of Voting Focus List	99%	99%	100%	≥ 98%

1. For 2009 and 2010, the percentage of AGMs and EGMs at which votes were cast and the target for non-voting in blocking markets outside the Voting Focus List were no longer included. After all, the policy in such cases is not to vote. In previous years, such meetings in blocking markets were included in the calculation of the percentage of meetings at which votes were cast.

Examples of voting

Tobacco advertising and poverty

In 2010 the shareholders of a number of large US tobacco producers tabled resolutions on the effects of marketing on people living in poverty. The shareholders' aim was to compel companies to report on these effects. According to the proposers of the resolutions, smokers living in poverty will choose tobacco products rather than food if given a choice. Children of smokers will suffer hunger more frequently as a result of the marketing activities of tobacco manufacturers.

PGGM believes that advertising and marketing by tobacco manufacturers should be subject to strict rules so that smoking is not encouraged among groups that are most susceptible to advertising. PGGM has no reason to believe that the tobacco producers concerned target their marketing specifically at people living in poverty.
In addition, we do not believe companies can be called to account about decisions consumers make with regard to their spending. We believe that the existing regulations governing advertising and marketing in the tobacco sector are generally strict and we expect that the authorities will tighten the regulations themselves where necessary. PGGM therefore voted against all these shareholder resolutions, because we see greater value in government regulation of tobacco advertising than in the imposition of reporting obligations on companies. If excesses occur, we will engage in a dialogue with the company concerned in order to improve its behaviour or activities.

Shareholders promote human rights

Shareholders once again drew companies' attention to their responsibility with regard to human rights in 2010. Many of the resolutions which PGGM supported were calls on companies to draw up a human rights policy or amend their policy.

At Abercrombie & Fitch and Urban Outfitters we voted in favour of a shareholder resolution to draw up a code of conduct based on ILO guidelines, which are benchmarks in the field of labour law. They cover matters such as the right to join a trade union, discrimination and child labour. Although both resolutions received above-average support from shareholders, both failed to attract a majority of votes.

We also voted for various resolutions drawing attention to the need to combat discrimination based on sexual orientation.

Tar sands on the agenda

In 2010 shareholders tabled resolutions calling for greater openness about oil extraction from tar sands at the AGMs of BP and Shell. In both companies these resolutions failed to attract a majority of votes.

PGGM abstained on both resolutions. This was because in the run-up to the meeting both BP and Shell demonstrated greater openness to PGGM and other stakeholders with regard to the economic, social and environmental aspects of oil extraction from tar sands. Hence they to a large extent answered the questions in the resolutions.

However, in view of the major consequences of oil extraction from tar sands for society and the environment, we expect companies operating in this sector to be more than responsible and to practise openness. It is important for PGGM that companies operating in oil extraction take a long-term view of the energy market and the role of greenhouse gas emissions. We also believe they must fulfil their responsibility by reducing their own CO_2 emissions and those of users of oil products.

A climate-friendly economy gives rise to opportunities and threats for the oil sector. We are convinced that companies that have a 'green' pioneering role are best positioned to take advantage of opportunities. We do not see major investments in CO_2-intensive energy sources as a sign of leadership in the climate debate.

By abstaining we sought to underline the importance of this. We are therefore remaining in discussions with these companies on their long-term strategy.

Intervening in pay

Shareholders sparked a revolution in the United States in 2010. A number of companies and shareholders had divergent views on pay. The majority of shareholders at the AGMs of Motorola and Occidental petroleum voted against the resolutions on directors' pay (exercising their 'say on pay'). This was unprecedented for a company of this size, as shareholders had never previously voted down such a resolution in an S&P 500 company.

Motorola and Occidental Petroleum are under fire for having excessive pay levels and a distorted relationship between pay and the company's performance. PGGM also voted against these resolutions because we believe that variable pay should be linked to the company's performance over the long term. We also believe that total pay should be in line with the total pay of comparable companies. That was not the case at Occidental Petroleum and Motorola.

'Say on pay' has now become firmly established in the United States following the enactment of the Dodd-Frank Act. With effect from 21 January 2011, practically all US listed companies are required to put their remuneration package for directors to the vote at the next shareholders' meeting, as well as the frequency of its appearance on the agenda (the choice being every one, two or three years). Any exceptional redundancy schemes for executive directors must also be approved by shareholders.

PGGM nevertheless believes that these aspects are unsatisfactory in the current situation. In many cases the pay structure is now so complex that shareholders do not know how high pay may turn out to be.

PGGM therefore wants companies to present their remuneration policy to shareholders for approval in advance. We would then like to see the remuneration committee compile an annual report on the implementation of the remuneration policy and put it to the vote at the meeting. If shareholders believe the pay is excessive and not in accordance with the specified policy, this then provides scope for intervention. Moreover, the outcome of the vote is only advisory at present, so the company can disregard it. PGGM believes that resolutions on pay should be binding. We shall therefore continue to discuss all the above cases with the various parties (including Senators and the SEC) with whom we are in continuous dialogue in the United States.

5 Engagement

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

We define engagement as the overall activities carried out in order to achieve these improvements. We use the term dialogue to emphasise the bilateral nature of the contact we seek with companies and markets.

5.1 Engagement policy and approach

The engagement policy is part of the Listed Equity Ownership Policy (LEOP). Our engagement programme is based on four themes which we have chosen on the basis of our identity and the influence we expect to be able to exert:

- corporate governance;
- human rights;
- climate change;
- health.

Engagement projects

We use various sources to draw up possible engagement projects with companies and markets, such as external data suppliers, brokers, other institutional investors, shareholders' meetings and our own research. New engagement projects are selected on the basis of factors including priority, effectiveness and capacity. We also monitor the latest developments closely. Particular circumstances may give rise to ad hoc engagement projects and activities.

New engagement projects start with an engagement plan, in which we describe among other things the objectives we are pursuing and the results we aim to achieve in the company and/ or market participants. We also estimate the duration of the project.

As in the case of voting, with engagement it is important to bear in mind that on average we hold only 0.15% of a company's issued shares in our portfolio. With such percentages we cannot exercise any power; the most we can do is exert influence. Co-operation with others may therefore be necessary in order to achieve results.

Engagement projects usually take several years before they yield any results. In 2010, we therefore continued existing projects and started new ones. We consequently had a larger number of our own engagement projects in 2010 than in 2009, and with more companies.

In some cases we adopt a restrained approach in our external communication on engagement if that is in the interests of the dialogue. Confidentiality is an important principle in our dialogue with companies. We nevertheless practise openness where possible.

Engagement Focus List

Each year we draw up an Engagement Focus List detailing the companies which have priority in our engagement activities. In 2010, the Engagement Focus List formed an integral part of the Voting Focus List (see Voting section). At the beginning of 2010 a total of 41 companies were on the Engagement Focus List. We carried out direct engagement with 72 companies in 2010.

Collaborative engagement

In our own engagement projects we often work closely with institutional investors, for example in order to give more weight to our message. We call this ‘collaborative engagement’. We also participate actively in various joint ventures and organisations, including the PRI, Eumedion and the Institutional Investors Group on Climate Change (see appendix entitled ‘Overview of co-operative relationships’).

Regulatory engagement

We often use co-operation within networks to exert influence on the relevant legislation and regulations. In that way we aim to bring about improvements in the environmental, social and corporate governance fields. Within this framework we pursue dialogue with market participants such as regulators and policymakers. We call this ‘regulatory engagement’. We conducted 28 regulatory engagement projects in 2010. In the United States, for example, we achieved improvements with regard to advisory votes on executive compensation and the abolishment of uninstructed broker votes on say-on-pay matters.

Best practice engagement

Efficient markets and financial systems are of great importance to PGGM as a responsible investor. We therefore initiate or support engagement activities in order to improve standards. We call this ‘best practice engagement’. As part of these engagement activities we may talk to groups of companies in particular sectors or address certain subjects, for example to encourage support for a voluntary minimum standard or code, such as the UN Global Compact. We took part in nine best practice engagement projects in 2010, reaching 234 companies.

Engagement activities carried out by F&C

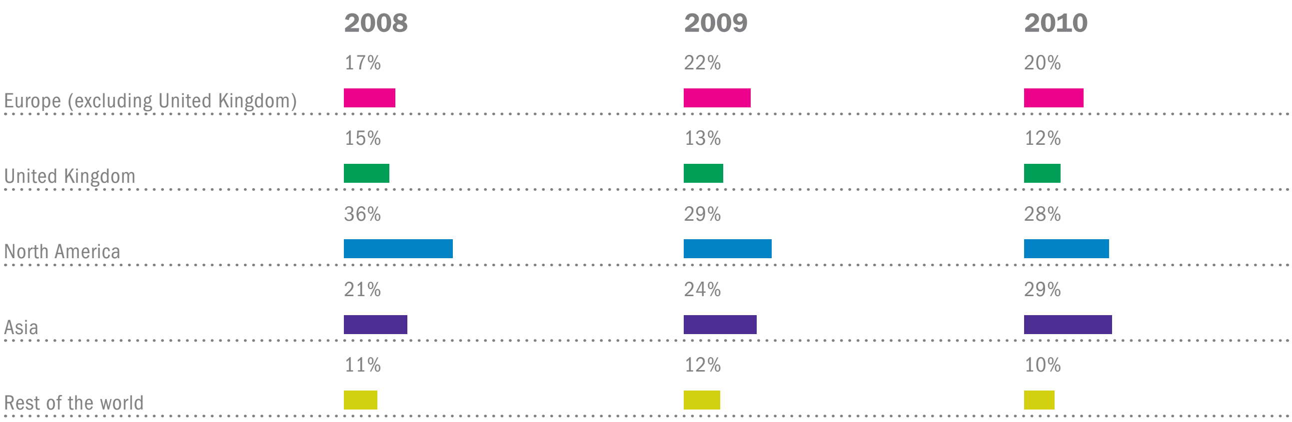
To supplement our own activities, the British asset manager F&C conducts a dialogue on behalf of PGGM with a large number of companies in our portfolio. F&C has a more top-down sector approach than PGGM. The large team of sector specialists is therefore able to place a wide range of subjects on the agendas of a large number of companies. We work closely with F&C to define priorities in its engagement activities. F&C’s engagement activities focused on eight main themes in 2010:

- corporate governance;
- business ethics;
- responsible enterprise and reporting;
- environmental management;
- ecosystems;
- climate change;
- human rights (including labour rights);
- health.

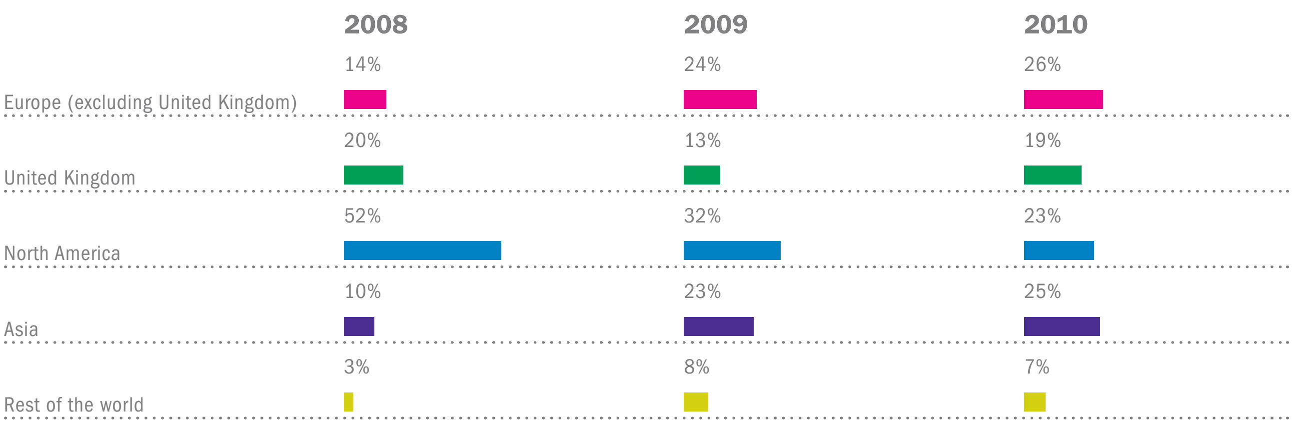
Partly on behalf of PGGM, F&C conducted an intensive dialogue worldwide with a total of 574 companies in 2010. 1,557 different engagement projects were carried out. The companies in our investment portfolio with which PGGM and F&C have conducted a dialogue represent a value of over €18 billion, which is more than 51% of the total assets invested in listed equities (including real estate companies).

Through its engagement activities and involvement in international initiatives F&C worked to improve the standards for good enterprise policy and conduct. F&C entered into the dialogue with companies on the basis the specific guidelines it has drawn up for each region or country. This year, particular attention was devoted to corporate governance and the control of social and environmental risks in the emerging markets. Water and forestry management were also discussed worldwide on a large scale with various companies. Finally, there was a focus on the financial sector, which appeared to be largely ‘back to normal business’ so soon after the crisis. Calls were made for thorough reforms of bank regulation and conduct.

Geographic spread of engaged companies



Geographic spread of engagement milestones



Europe (excluding United Kingdom)
United Kingdom
North America
Asia
Rest of the world

BREAKDOWN OF ENGAGEMENT PROJECTS BY SUBJECT

	2008	2009	2010
Governance	33%	21%	24%
Social	18%	27%	33%
Environment	33%	35%	27%
Transparency	16%	17%	16%

OVERVIEW OF ENGAGEMENT BY PGGM AND F&C

	2008		2009		2010	
Subject	projects	milestones	projects	milestones	projects	milestones
Corporate Governance	292	102	318	124	423	171
Business ethics	182	5	157	9	205	18
Responsible enterprise and reporting	231	34	266	56	252	43
Environmental management	130	11	150	7	186	12
Ecosystems	93	10	120	11	88	38
Climate change	253	19	263	80	165	27
Human rights	207	48	207	21	303	36
Health	50	6	55	8	48	10
Total	**1438**	**235**	**1536**	**316**	**1670**	**355**

Examples of milestones achieved in 2010

- Role of executive board chairman and CEO no longer combined in a single person
- Improved code of conduct including whistleblower scheme
- Improvement in dialogue with local communities and related reporting in mining sector
- ISO 14001 certification of environmental management system
- Participation in the Forest Footprint Disclosure project
- Development and publication of climate strategy including formal targets
- Change of behaviour in retail company towards trade unions in the US: more open and less defensive attitude
- Development and publication of strategy for access to medicine in developing countries

5.2 Corporate governance

With regard to the subject of corporate governance, we focused on the following main points in 2010:

- best practices in the Netherlands, including corporate strategy and risk profile;
- best practices in the United States;
- best practices in Asia;
- exercising of voting rights.

PGGM focused on the description of corporate strategy in 2010 because clarity with regard to strategy and the long-term objectives of a listed company are important matters for every investor. Because there are risks associated with the achievement of these objectives, we believe companies should also provide a description of the company's risk profile and principal risks (the 'risk appetite'). The potential ESG risks are of increasing importance. We would therefore like to see annual reports giving the most transparent account possible of the corporate strategy and risk profile. Such transparency will then contribute to good corporate governance.

Knowledge of long-term objectives is also important in order to assess the effectiveness of the remuneration policy. PGGM sees remuneration as an important part of corporate governance. It applies various assessment criteria, including the extent to which remuneration fits in with the company's long-term objectives.

A bill introduced by the Dutch government is another reason why a clearly communicated corporate strategy is necessary. Under the bill, shareholders holding more than 3% of the shares of a listed company would be required to report whether they object to a corporate strategy. A clear description of the corporate strategy is therefore a precondition for a well-considered judgement. This strategy report is not compatible with a possible forthcoming European obligation on major shareholders to report intentions. PGGM therefore shares the objections to this part of the bill. Eumedion has notified the legislator accordingly.

Our dialogue also extends to the exercising of voting rights. The points covered include the modernisation of the voting process, the counting of all votes cast and the discontinuation of depositary receipts. There is room for substantial improvement in the exercising of voting rights in many markets and companies.

In many markets, for example, including the Netherlands, it is common practice at meetings of shareholders of listed companies not to count all individual votes but to vote by acclamation. In our opinion this violates one of the key principles of corporate governance, namely that each share confers a right to one vote. We continued our engagement project in Asia during the year. In around ten markets we called for all votes to be counted and for a compulsory requirement to be introduced to count all votes cast and publish the result as soon as possible. We recorded our first successes in the region.

► 'All votes count in Taiwan', p. 54

Following the Japan White Paper in 2008, PGGM played a part in drawing up the Asian Corporate Governance Association's India White Paper. This contains recommendations for corporate governance improvements in India and was published at the beginning of 2010. In order to draw further attention to corporate governance improvements, we travelled to India at the beginning of December with a delegation of institutional investors. We visited Mumbai, India's business centre, as well as Delhi, the seat of the federal government and all the ministries. The delegation held discussions with various representatives, including those of the regulator, the stock market and listed companies.

5.3 Human rights

On the human rights theme PGGM again devoted particular attention to the following main points in 2010:

- companies involved in human rights violations (including labour rights);
- companies operating in countries with repressive regimes, focusing particularly on companies operating in Burma (Myanmar) and/or Sudan.

In 2010 there were a total of 15 companies on the Engagement Focus List due to human rights, three of which were added in 2010. We engaged with a total of 130 companies on human rights during the year.

PGGM was also involved in a joint engagement project supported from the UN PRI. As part of the project we wrote to 86 companies which had signed the UN Global Compact, a UN initiative which encourages companies worldwide to conduct business in a sustainable and socially responsible way. The 86 companies had promised to report on their implementation of the Global Compact principles. We urged them to fulfil this commitment. The Global Compact ultimately granted a deferment to 19 companies from non-OECD/G20 countries. Of the remaining companies, 40% took up the gauntlet and submitted their progress report on time.

PGGM was also closely involved in compiling a guide for companies operating in conflict zones. Based on the UN Global Compact, this gives companies guidelines on responsible behaviour in risk areas. For example, it states how companies can reduce the negative impact of their activities and how they can make a positive contribution to sustainable peace and development in conflict zones. In March we travelled with a group of investors to Sudan in order to assess the applicability of these guidelines in practice.

► 'Visit to Sudan', p. 51

The final version of the guide was presented at the Global Compact CEO forum in June. Companies which endorse the Global Compact were asked to state in their annual reports how the guidelines are being implemented. Over the forthcoming year we shall participate in a trial project to stimulate and support the implementation of the guidelines. We are also using the guide in our dialogue with companies operating in various conflict zones.

► 'Concerns about continuing conflict between Israel and Palestine', p. 53

Activities in conflict zones entail considerable risks, not least due to possible or suspected involvement in breaches of human rights or international law. This is the case, for example, in Western Sahara, which is currently governed by Morocco. The United Nations, however, classifies Western Sahara as a non-self-governing territory, and hence it is not subject to Moroccan sovereignty. The area is rich in raw materials, including phosphate. We therefore sought to engage in a dialogue during the year with companies importing phosphate from this region. We wanted to find out how activities were being conducted with the consent of and partly in the interests of the local population.

In June VARA broadcast a critical documentary on Shell in Nigeria. The situation in Nigeria has been a recurrent theme in our dialogue with Shell in past years. In July 2010 we spoke to the director responsible for Shell's activities in Nigeria, voicing our concerns about the human rights situation, the consequences of oil spills for the local population and the safety of employees in Nigeria. We asked Shell to be more open and state how they would deal with matters such as clearing up the spills and paying compensation to the local population. We also urged the company to discontinue burning off the gas released in oil extraction as soon as possible. Finally we raised further questions in response to reports on the investigation by the UN environmental organisation into environmental effects and on the payment of bribes by a company contracted by Shell.

Another company with which we have been in dialogue for some considerable time is Wal-Mart of the United States.

A key theme of our discussions has been compliance with national employment legislation. In June 2010 PGGM and a group of investors spoke with the new Chief Administrative Officer. He stated a number of important changes had taken place within the company. The working methods and structure of the Labor Relations team had changed. Wal-Mart thus appears to adopting a more pragmatic approach to the trade unions. In addition, following the one-sided focus on green issues, more attention is being devoted to social issues, such as diversity and employee satisfaction. Wal-Mart has also strengthened its focus on sustainability, partly as a result of our engagement. The company has assigned responsibility for these subjects to a board committee. Following our discussions we have made a number of concrete suggestions for improvements in reporting on matters such as diversity, dealing with trade unions and relations with stakeholders.

F&C is also conducting a dialogue on human rights on behalf of PGGM and its clients. We are co-operating closely on a number of projects, such as the UN PRI Sudan Engagement Group. In addition to the regular engagement programme for PGGM, F&C was given a special assignment by PGGM to engage in dialogue with around thirty companies, mostly in the mining, oil and gas sectors, on human rights and working conditions. An important theme on the agenda concerned the rights of indigenous peoples. F&C also held a seminar on this theme for companies in the extraction industry in co-operation with the prominent International Council on Mining & Metals.

If the dialogue with a company on the Engagement Focus List concerning human rights does not ultimately deliver the desired results, a decision may be taken to exclude the company from the investment portfolio. During the past year that was the case of Vedanta Resources.

► 'PGGM disinvests from Vedanta Resources', p. 66

5.4 Climate change

In the field of climate change we devoted attention to the following main points during the year:

- tar sands;
- strategic opportunities and threats of climate change;
- transparency on greenhouse gas emissions.

In 2010 we further intensified the dialogue concerning tar sands. This was partly as a result of the shareholders' meetings at Shell and BP. We also broadened the dialogue by not limiting ourselves to activities in Canada. We noted that plans also existed to exploit oil sands outside Canada, for example in Congo (Brazzaville). We urged the companies concerned to comply with international standards in the field of environmental management and consultation with local communities.

As part of the Carbon Disclosure Project we once again requested companies to publish information on their greenhouse gas emissions. We also conducted a further dialogue with a number of companies in energy-intensive sectors on their reporting on greenhouse gas emissions. The aim in particular was to improve the reporting on plans and targets in the field of greenhouse gases.

In the field of engagement with legislators, we were actively involved in the development and presentation of the policy document on climate policy in Europe produced by the Institutional Investors Group on Climate Change (IIGCC) in 2010.

► 'Climate policy in Europe', p. 54

5.5 Health

On the health theme, PGGM focused on the following main points in 2010:

- access to medicine;
- obesity.

Access to medicine

Access to medicine is an important right. Emerging market populations in particular lack access to medicine. PGGM attaches great importance to this subject, which is reflected among other things in our support for the Access to Medicine (ATM) Index. The ATM Index serves as a benchmark for initiatives by pharmaceutical companies with regard to access to medicine.

In July 2009 PGGM sought written contact with Eli Lilly, a large innovative pharmaceutical company, on its approach to access to medicine. Although the company was known to be difficult to approach, PGGM succeeded in reaching the right people and initiating an extensive engagement project. In our first letter we asked the company for a study of the pricing of their medicines for emerging market populations. We also made a visit to the company's headquarters in 2010, which was followed by an intensive dialogue. As a result the company is going to conduct an initial pricing study, which is expected to be completed at the beginning of 2011.

PGGM took the first steps in 2010 in bringing together a group of investors to discuss access to medicine. From 2011 we are entering into discussions with generic pharmaceutical companies to determine what their role is and should be in relation to access to medicine.
A new version of the access to medicine index was also

published in June 2010. Using an adapted, more refined methodology, the researchers compared around 20 innovative pharmaceutical companies and seven generic pharmaceutical companies on the basis of access to medicine criteria. PGGM deployed its expertise on various occasions to help publicise the 2010 index.

Obesity

Obesity is an increasingly serious health problem for a growing number of people worldwide. According to a forecast by the World Health Organization (WHO) around 2.3 billion people will be overweight and 700 million people will be obese by around 2015. In contrast to earlier times, these issues are now also affecting people in less affluent countries.

PGGM therefore believes it is an important subject to include in our engagement activities. We initially focused on the food sector, which can play an important role in tackling obesity. After all, through their products companies in this sector account for a large part of many people's daily consumption. In 2010 we called on companies in this sector to explain their own role and risks in the obesity discussion. We asked them what scope they saw to provide alternative products that are healthier than those of the competition. We also urged them to explain their marketing and strategy with regard to healthy/healthier alternatives. We asked them to develop indicators to monitor the progress of healthier alternatives. In this way, PGGM aims to ensure that food producers develop a better vision of the health risks and opportunities. Currently, providing diet products is usually all that is done in this area. By developing a better vision, food producers can positively distinguish their offering from that of competitors, and consumers can choose healthier – or less unhealthy – products across the entire range.

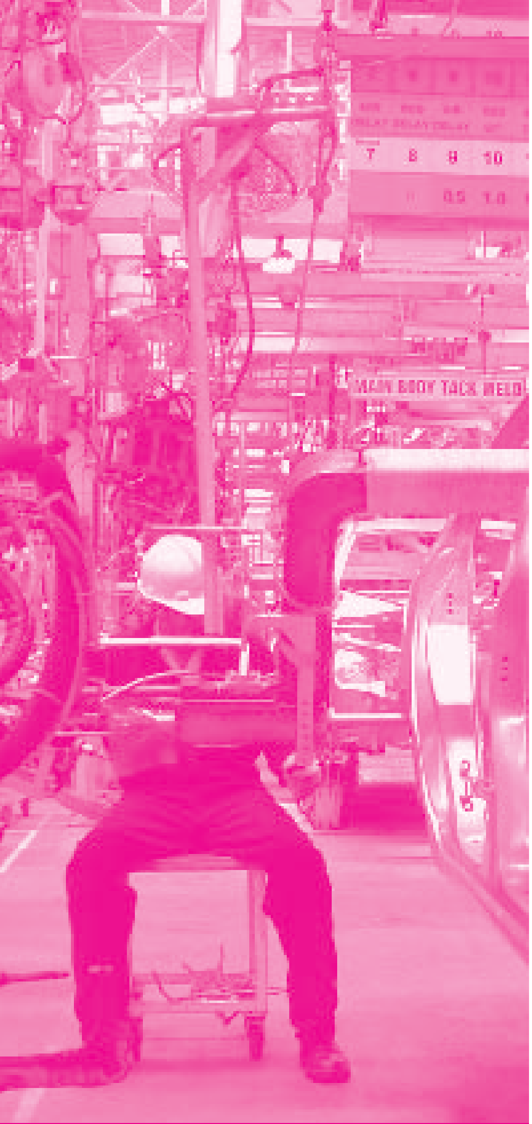
5.6 Outlook

Our aim in 2011 is to further intensify our engagement activities. As well as continuing all existing projects, we intend to undertake new engagement initiatives, in which we shall devote particular attention to ESG risks. We may evaluate our engagement activities and approach in the year ahead.

KEY PERFORMANCE INDICATORS WITH REGARD TO ENGAGEMENT

	2008	2009	2010	TARGET 2011
Number of companies with which PGGM has carried out engagement activities	34	48	72	≥ 72
Number of companies with which F&C has carried out engagement activities	569	495	574	N/A
Number of companies with which F&C has carried out engagement activities under special instructions from PGGM	26	30	30	30
Value of companies with which engagement activities have been carried out as % of total equity portfolio*	48%	48%	51%	N/A

* Since the assets under management at the end of 2011 are not known, no targets are stated as a percentage of assets under management.



Examples of engagement

Accidents threaten continued existence of BP

On 20 April 2010 a drilling platform in the Gulf of Mexico exploded killing 11 employees. This marked the beginning of what turned out to be the largest ever American oil disaster. In almost three months over four million barrels of oil was spilled into the sea.

As the operator, BP was responsible for the operation of this platform. The enormous consequences of the disaster therefore seriously threatened BP's continued existence. A US committee of inquiry confirmed BP's responsibility, but also criticised its partners and the industry as a whole for their improper conduct with regard to safety.

PGGM spoke to BP several times in 2010. One of the matters on which we questioned BP was board-level supervision of compliance with safety regulations. Following the oil disaster and the subsequent news reports, employment conditions, safety and the environment became controversial issues for BP. Partly as a result of our questions, BP decided to strengthen the board committee with the addition of a safety expert, a former admiral from the US armed forces who was responsible for the nuclear fleet.

BP is working hard to tackle the consequences of the disaster and has begun to improve its safety systems, partly through central control and supervision of risk management. We spoke to BP in November and concluded the company was taking positive steps.

What this accident – coupled with previous major accidents in Texas and Alaska – makes clear, however, is that the safety culture at BP 'on the shopfloor' was a serious cause for concern. However, bringing about a genuine change in this culture will require more than just an organisational adjustment. In order to be seen as best in class in the field of safety, BP must examine and make necessary changes to the role of safety in management across the company as a whole and within the strategic choices that the company makes. PGGM believes this is also necessary to guarantee BP's continued existence in the long term.

Successful appointments at Unicredit

In Italy we became acquainted for the first time with the nomination of independent candidates for the executive and supervisory boards of listed companies. Since the introduction of the 'Voto di Lista' system in 2005, minority shareholders have had the right to propose candidates under certain conditions. Shareholders can then vote on these candidates, who can then be appointed to the executive board and/or the supervisory body. In the case of the supervisory body, the chairman must be designated from among the candidates nominated by the minority shareholders. In this way minority shareholders can gain greater influence over the management and supervision of an Italian listed company.

There are only a few listed Italian companies each year in which a nomination can be made under the Voto di Lista system. With the assistance of Assogestioni, the Italian industry organisation for asset managers, and together with other representatives of minority shareholders such as APG, we proposed various candidates at one company, the Italian listed bank Unicredit.

The formal requirements for proposing a candidate make it a difficult procedure. These include the blocking of shares, fulfilling the candidate profile and supplying all documents in Italian. We nevertheless succeeded in getting a number of candidates onto the list, so shareholders were able to vote on them. Ultimately, two candidates gained sufficient votes to be appointed as chairman and director of the supervisory body (the Statutory Board of Auditors). In view of the success of this engagement we will consider making further use of Voto di Lista in Italian companies.

Visit to Sudan

In co-operation with the UN PRI Sudan Engagement Group (http://www.unpri.org/collaborations) we have for some time been conducting a dialogue with oil companies operating in Sudan. This group's particular focus is on the withdrawal of companies from Sudan, but it also calls on companies to take a reasonable approach and contribute actively to the reduction of human rights violations in the region. The guidelines on responsible enterprise in conflict zones are an important instrument in this regard.

At the beginning of March PGGM travelled to Sudan with a group of international investors to assess the applicability of these guidelines on the ground. Another important aim of the trip was to gain greater insight into local conditions. We therefore spoke with representatives of local and international companies, various representatives of social organisations, government officials, academics, international observers and diplomats. An important question was whether it was actually possible to operate responsibly in a country such as Sudan. These discussions gave us greater insight. On the basis of our findings we gave companies concrete recommendations on transparency with regard to oil revenues, safety, impact measurement and communication with stakeholders.

With the prospect of a referendum being held on the independence of Southern Sudan, we also asked questions on this subject, including how companies were preparing for this possible new situation and the conflict situations that could arise. The referendum has now taken place. The population of Southern Sudan has voted massively for independence. We shall continue to follow developments closely.

Discontinuation of depositary receipts at ING

ING issues depositary receipts for shares. The major difference between depositary receipts and shares is that depositary receipts have no voting rights. We therefore put the discontinuation of depositary receipts at ING on the agenda once again for the 2009 AGM. After internal consultations lasting a year, the executive board of ING announced that it wished to maintain depository receipts at least up to 2013, until the announced restructuring measures had been completed. PGGM spoke on this subject at the 2010 AGM, partly on behalf of other investors. In addition to executive and supervisory directors, we asked the trust office to state its position. The trust office administers the ING shares for which depositary receipts are issued and exercises the voting rights on those shares.

The ING Trust Office supports ING and voted in favour of the agenda item stating ING's wish to maintain the depositary receipts. Without support from the trust office the agenda item was voted down massively because foreign investors in particular have no understanding of the typical Dutch phenomenon of depositary receipts. Following the discussions PGGM was able to secure an agreement that ING depositary receipts would be made 'Tabaksblat-proof'. In other words, the interests of holders of ING depositary receipts would have prime importance, the holders would be able to recommend their own candidates for the trust office board and a meeting of depositary receipt holders would be held for the first time in the autumn of 2010.

Total and Schlumberger in Burma and Sudan

We spoke to Total, the oil company, and to Schlumberger, the service provider in the oil and gas sector, in 2010 about their activities in Burma (Myanmar) and Sudan. In their discussions with the authorities we expect them to use their influence and to not shy away from sensitive subjects such as human rights. These are difficult issues on which many companies would prefer not to get their fingers burnt. Our discussions with these companies revealed that a different way forward was possible. Total, for example, was involved not only with the International Labour Organisation (ILO) but also with the Burmese state oil company MOGE and the Burmese Ministry of Labour in a series of training courses on employment rights for representatives of local authorities and other bodies. This is a very sensitive subject in Burma, where forced labour still occurs regularly. It therefore represents an important step forward. At Schlumberger we insisted on the importance of the Voluntary Principles for Security and Human Rights. This important standard, which helps companies to guarantee security within and around their operations in compliance with human rights principles, is now being included in training courses in Sudan for safety personnel in the consortium for which Schlumberger works.

First meeting of ING Trust Office

ING held its first ever meeting of depositary receipt holders in the autumn of 2010, partly as a result of many years of pressure from PGGM. At the meeting, the board of the ING Trust Office, Stichting ING Aandelen, gave an account of its activities over the past year. It also gave detailed consideration to the votes cast by the trust office at the ING AGM.

An important outcome of this meeting was that the trust office board offered to accept voting instructions from the certificate holders at subsequent ING AGMs. The trust office would then vote at the ING AGM in accordance with the voting instruction on the respective depository receipts. During the open discussion following the trust office board's presentation, we raised questions among other things on the continued issuance of depositary receipts, even after the restructuring of ING. The trust office board stated that no discussions had yet taken place with ING on that subject. We also requested the trust office board to hold an annual meeting of depositary receipt holders, and the board acceded to our request. In 2011 we shall therefore once again enter into discussions on depositary receipts with the executive board of ING and the trust office.

Majority vote campaign delivers result

PGGM has engaged with the US market for many years in an effort to have majority voting established as a standard in regulations and legislation for the appointment of listed company directors. Majority voting for the appointment of executive directors at AGMs contrasts with the plurality voting that is still used in many listed companies. Under plurality voting, a candidate can be appointed if he or she receives only one vote and there are no other candidates, and no dissenting votes can be cast (only abstentions).

Since the United States lacks shareholder rights that are common in Europe, such as the ability to dismiss executive and supervisory directors, it is important that US shareholders are able to vote in a normal 'democracy' on the proposed candidates and that a simple majority is required for appointments.

In July 2010, after years of wrangling, the 'Dodd-Frank Act' was finally adopted in the United States, bringing a real improvement in shareholder rights. It covers issues such as proxy access (the right to nominate one's own candidate as a director of the company), 'say on pay' and transparency. In the political exchanges in the run-up to enactment compulsory majority voting was lost at the expense of proxy access. The introduction of majority voting by American companies which do not apply this standard must therefore be achieved for the moment through engagement.

We therefore wrote to a large number of companies to make our wishes known. In some cases this led to visits by PGGM to the respective company, or the continuation of communication in writing or by conference calls. PGGM is considering submitting shareholder resolutions in certain cases in 2011 in an effort to force the adoption of a majority voting standard.

PGGM has already achieved results. The US auction house Sotheby's has announced that following the discussion with PGGM it will introduce a majority voting standard at the next AGM.

Concerns about continuing conflict between Israel and Palestine

For some time PGGM and its clients have been approached on the subject of investments in companies operating in the occupied territories of Palestine. We too see the conflict between Israel and Palestine as a worrying situation, because it poses a continuing threat to international peace and security.

We therefore focus our engagement activities on companies closely involved in activities which appear to contravene international law. We have therefore have entered into a dialogue with various banks financing the construction of settlements in occupied territory. We have also approached companies that have supplied surveillance equipment for the wall or machines used to demolish Palestinian homes. In particular we have examined companies that have supplied specific products adapted to this purpose.

Finally we reported last year on our dialogue with the French companies Alstom and Veolia, which are involved in building the controversial tram line in Jerusalem. In April the United Nations Human Rights Council adopted a resolution expressing concern about the construction of this tram line. The Council believes it clearly contravenes international law. Both Alstom and Veolia have confirmed that they will withdraw from this project. Until that time we shall monitor developments closely.

Discontinuation of depositary receipts at Unilever

At Unilever the board wishes to abolish depositary receipts. Here the situation is completely the opposite of that at ING. The holders of preference shares are opposed to the plan because it will remove the disproportionate voting rights on the preference shares. The preference shares have approximately one-third of the total number of votes but represent around 0.5% of the capital. At the 2010 AGM the executive board put a resolution to the vote authorising the repurchase of the preference shares. At the meeting the preference shareholders AEGON, ASR and ING stated that they would vote against the resolution. Nor would they accept an offer by Unilever to acquire the preference shares on the existing terms.

After the vote it was clear that an overwhelming proportion of the other shareholders had voted in favour of the resolution. However, without the consent of the preference shareholders, it is not possible to remove the disproportionate voting rights on the preference shares.

We share the board's view that the disproportionate voting right on the preference shares must be removed before depositary receipts are discontinued at Unilever. It goes against the 'one share – one vote' principle. Only then can we agree to the issuance of depositary receipts at Unilever and the way in which the trust office has been set up in accordance with the Dutch Corporate Governance Code (2008). We have therefore called on the preference shareholders to endorse the 'one share - one vote' principle as set forth in the Dutch Corporate Governance Code, and to co-operate constructively with a rapid removal of the disproportionate voting right on the preference shares.

All votes count in Taiwan

In mid-2010 we travelled to Taiwan to urge various parties to improve corporate governance, including the ministry of economic affairs, members of the Taiwanese parliament, the Securities and Futures Bureau, Taiwan Stock Exchange and number of listed companies. We drew attention to the importance of counting all votes cast at shareholders' meetings. The reactions to these proposals varied greatly. In most cases our contacts expressed great willingness, but immediately stated that they were dependent on other parties in order to achieve these changes. Some are managing to break out of this – partly cultural – vicious circle, such as Taiwan Semiconductor Manufacturing Company Ltd (TSMC). We have maintained a constructive dialogue with TSMC for some time. At the AGM we attended this year, TSMC counted every vote on every agenda item and presented the results at the meeting. Hence it is a good example for other listed companies and the Taiwanese market as a whole. Although there is a long road ahead before all votes are counted in Taiwan, we can chalk this up as a success.

Climate policy in Europe

Since 2008 we have conducted a dialogue with policymakers and politicians to express our wishes with regard to future climate agreements and climate policy. We do this largely in co-operation with the Institutional Investors Group on Climate Change (IIGCC).

PGGM took the lead in organising a meeting with the IIGCC in 2010 to continue the dialogue in Brussels on climate policy. The 'Accelerating Investment in a Low Carbon Economy' conference took place in Brussels on 30 September. The dominant theme was the introduction of the official IIGCC position on the European Union's climate policy. The IIGCC developed this position over the summer with PGGM and other parties. PGGM and other members of the IIGCC engaged in extensive discussions with European Commission policymakers at the conference. We called for a policy ensuring that climate-friendly investments were at least as attractive as investments with greater impact on the climate. We made various recommendations to this end.

The conference led to a lively discussion which revealed that the message from institutional investors was still not being heard very loudly in Brussels. The importance of the sector was acknowledged and various leads emerged for further intensification of the dialogue, for example on sustainable energy in Europe. The Commission said it was open to further discussions on our recommendations. PGGM will therefore continue the constructive dialogue initiated at the conference, both individually and in the context of the IIGCC.

Corporate governance in Japan

PGGM formed part of a delegation from the Asian Corporate Governance Association (ACGA) to Japan. The aim of the visit was to stress the importance of corporate governance improvements to Japanese regulators and legislators, the Tokyo Stock Exchange, listed companies and interest organisations such as Nippon Keidanren. The ACGA Japan White Paper from 2008 formed the basis for our discussions. PGGM was actively involved in drawing up this document.

A number of international corporate governance standards are not yet generally accepted in Japan. Japanese listed companies in particular do not sufficiently recognise the value of independent internal supervision. In such a developed market as Japan, the existing practice falls short of international standards. We have nevertheless seen progress compared to previous years. The various parties to the discussions are clearly open to improvement. For example, the regulator, the Financial Services Agency, has introduced new publication requirements for listed companies, bringing the publication of non-financial information more in line with the international standard.

In Tokyo we drew attention to the need to count all votes cast at AGMs and to publish the final result of the vote. Voting at Japanese AGMs takes place by acclamation, so it is not known by what percentage of votes a resolution has been adopted or rejected. We discussed this with the Japan Investor Relations Association and the very influential and conservative Nippon Keidanren. We are now seeing the first Japanese companies voluntarily counting all votes and publishing the results. An example is Autobacs Seven, a company with which we had detailed discussions during our visit. PGGM is continuing to encourage other listed Japanese companies to follow this example at their next AGM.

6 Legal proceedings concerning share ownership

In order to recover damages and enforce good corporate behaviour, PGGM sometimes institutes legal proceedings on behalf of our clients, both in the Netherlands and abroad, as a shareholder in listed companies. We also monitor proceedings brought by other parties.

6.1 Objectives of legal proceedings

The main objectives for the conduct of legal proceedings are:

- obtaining damages;
- creating value in the long term;
- continuity of the company's activities; and/or
- achieving good corporate governance and good business conduct.

PGGM systematically monitors new and ongoing legal proceedings throughout the world. Our systems thus enable us to gain early knowledge in order to decide whether to demand an active role on behalf of our clients. There must be clearly demonstrable grounds for initiating legal proceedings. These may involve companies that have committed fraud as a result of which shareholders have suffered losses, or cases in which a defective corporate governance structure increases the risk of damage.

Most legal proceedings are conducted against companies in the United States. That is because the United States has the system of class actions, in which it is relatively easy to obtain damages for the entire group ('class') of misled investors. Class action is the American name for a lawsuit conducted by a class of victims sharing a common interest. This group does not necessarily have identical interests but works together in order to bring damages proceedings in a court ('action').

A major impediment to the use of class actions arose, however, in June 2010 due to a ruling by the Supreme Court, the highest court in the United States, in the Morrison vs National Australian Bank case. This ruling considerably limits the right of shareholders outside the United States to participate in class actions. PGGM views this development with great concern. Together with other institutional investors, we are therefore endeavouring to convince the US legislators that class actions must be open to non-US investors, on a basis of equal treatment.

► 'Class actions restricted for non-US investors', p. 60

6.2 Active proceedings

Legal proceedings can be brought in various ways. The main forms are direct action, in other words bringing one's own legal proceedings against a company, or a form of collective action, such as class actions in the United States. These can also include proceedings against executive and supervisory directors (members of supervisory boards/non-executives) personally, or third parties involved (auditors, advisers, etc.). PGGM was actively involved in two sets of proceedings in 2010, against Bank of America and Shell.

► 'Bank of America class action', p. 61

PROCEEDS OF CLASS ACTIONS IN THE LAST FIVE YEARS

2006	€1,472,816
2007	€4,646,307
2008	€3,674,956
2009	€6,574,827
2010	€2,771,000
Total	**€19,139,906**

In previous years we have reported extensively on the Shell settlement, in which PGGM played a major role. By order of the courts in the Netherlands, investors worldwide have been invited to claim their damages by completing the required claim forms. The deadline for submitting these forms expired on 5 November 2010. On the basis of the actual number of submitted claims, a settlement amount of over $389 million will be divided among misled non-US investors. The settlement is so complex that payment will not take place before the summer of 2011.

6.3 Passive proceedings

When a settlement is reached in a class action, investors who have suffered losses must register with the claims administrator, who is responsible for distributing the settlement amount. Investors who have played no active role in the proceedings are also entitled to damages, because they automatically form part of the class. In contrast to an active role as in the case of Bank of America and Shell, we refer to this as passive legal proceedings on share ownership.

The proceeds of active and passive class actions over the last five years are shown in the table below. They are allocated to the year in which the proceeds of the respective class action were actually received. That is usually not the year in which the class action was brought or the settlement was reached. The proceeds of class actions vary from year to year. 2009 was very exceptional due to the settlement with investors in the Tyco International case amounting to approximately $3 billion. This case also impacted the total payout in 2010 due to a ‘second distribution’. A substantial part of the proceeds in 2010 comprised damages in the Merrill Lynch and Qwest cases.

If necessary, we will play an active role and initiate our own proceedings if that is in the interests of our clients.

6.4 Outlook

In the Bank of America class action the US court is expected to issue a ruling in the spring of 2011 on the proportion of the claims for which the lead plaintiffs can pursue their case. It is already clear that it will involve a substantial part of the damage suffered. Following the court's ruling, steps will be taken to gather further evidence as part of the 'discovery' procedure. PGGM also expects to be involved in this discovery phase through questioning and providing detailed information.

Again in 2011 PGGM will systematically monitor new and ongoing class actions in the United States and legal proceedings in other parts of the world. If necessary, we will play an active role and initiate our own proceedings if that is in the interests of our clients.

Examples of legal proceedings concerning share ownership

Class actions restricted for non-US investors

On 24 June 2010 the Supreme Court of the United States ruled that class actions must be restricted in cases brought by foreign investors against a foreign company listed outside the United States. This ruling resulted from the Morrison vs National Australian Bank (NAB) case, in which Australian investors lodged a complaint against NAB in the United States even though they had purchased their shares in the Australian stock market. The NAB share price had fallen sharply due to a massive writedown after it was revealed that an NAB subsidiary in the United States had manipulated figures.

The ruling overturned 40 years of case law on access to the US courts through class actions. Lower courts always permitted class actions with a foreign character as long as there was some actual connection with the United States. The precise consequences of this decision are unclear, because they are being fought out in the lower US courts. It is clear, however, that foreign investors' ability to recover damages in the US has been substantially curtailed.

PGGM referred the matter to the Supreme Court jointly with other investors in 2009. We requested the Supreme Court to take account of the negative consequences for the US capital markets if foreign investors were barred from this form of legal protection. These attempts were of no avail, partly because of the huge US business lobby. PGGM will nevertheless continue its attempts to address the negative trend as far as possible. We are therefore submitting our response to the SEC in 2011 as part of the consultation process on this matter.

Bank of America class action

In 2009 PGGM was appointed as lead plaintiff, jointly with pension funds of the State of Ohio, Texas Teachers and AP4 of Sweden, on behalf of its largest client. We spoke to Bank of America about the enormous losses suffered by investors as a result of the fall in the Bank of America share price due to the acquisition of Merrill Lynch in the fourth quarter of 2008. This loss followed revelations about the actual financial performance of Merrill Lynch. As lead plaintiff our role is to promote the interests of misled shareholders in the class. We also anticipate a structural improvement in corporate governance within the company.

On 27 August 2010 it was ruled that the vast majority of our claims could continue. In particular the court allowed claims relating to the ability to cast informed votes at the shareholders' meeting to which the Merrill Lynch acquisition was submitted for approval. The court ruled that knowledge of the scale of the mounting losses and the secret bonus agreements were important for shareholders to form a view of the acquisition. The motion to dismiss filed by Bank of America was therefore largely rejected. Although we were pleased with this ruling, we nevertheless requested the court for leave to provide further argumentation in respect of the part of a claim which was not admitted. This request was granted, but is again leading to delays because Bank of America also has the right to respond. We expect the judgement on this matter to be delivered in the first quarter of 2011.

The court also ruled that the information submitted by Bank of America in the public investigations must be made available to the lead plaintiffs. This evidence is so extensive (around 2 million pages) that it is being worked on intensively. Around 25 lawyers had the daily task of combing through the documentation in 2010, and the end is by no means in sight.

7 Exclusions

PGGM aims to avoid making investments on behalf of our clients which do not suit them and us. Therefore we do not invest in controversial weapons. We also exclude companies which violate fundamental human rights if they are unwilling to speak to us or demonstrate no improvement.

PGGM does not invest in controversial weapons. By that we mean that we exclude companies involved in the production and trading of nuclear, chemical and biological weapons, cluster bombs, anti-personnel landmines and munitions with depleted uranium.

If we learn that a company is involved in violations of human or labour rights, we initially enter into discussions with those directly involved (for example with the company in which we invest) in order to bring about an improvement in the situation. In no improvement is forthcoming, and if none can be expected, we exclude the company.

We also exclude government bonds of a number of countries. We base our decision mainly on internationally recognised judgements and sanctions imposed by the UN Security Council and calls to reconsider economic relations by the International Labour Organisation (ILO). We also act on the basis of our own judgement if countries breach the terms of our exclusions policy on a large scale without recent positive developments or the prospect of such developments in the near future.

7.1 The exclusions list

For listed investments (particularly equities and bonds) we have translated the exclusions policy into an exclusion list. At the end of 2010 there were five countries on the list of excluded government bonds: Iran, Burma (Myanmar), North Korea, Sudan and Somalia. The list of excluded companies currently has 38 names: 33 due to involvement in controversial weapons and five due to involvement in human rights violations.

Seven companies were added to the exclusions list in 2010: Aryt Industries (cluster bombs), Babcock International (nuclear weapons), Vedanta Resources (human rights), Sterlite Industries (human rights), Hindustan Zinc (human rights), Sesa Goa (human rights) and Babcock & Wilcox Company (nuclear weapons). Two companies were removed from the exclusions list because their involvement in excluded weapons was terminated: Cobham and McDermott International.
► ‘PGGM disinvest from Vedanta Resources’, p. 66

To draw up the exclusions list we use the expertise of two specialist research firms, Sustainalytics and EIRIS, which carry out regular analyses of our equity and bond portfolios. They look specifically for involvement in violations of human and employment rights and involvement in controversial weapons. On the basis of this information, and other sources pointing to possible involvement, we conduct more detailed investigations ourselves. We enter into discussions with the company. The intensity of this dialogue depends on the subject. In the case of involvement in controversial weapons, we mainly verify the information obtained. A discussion can nevertheless arise on the definition of involvement, particularly among producers of components for controversial weapons, but we do not consider it worthwhile to enter into a dialogue aimed at ending the involvement. We do nevertheless regularly discuss the future plans of companies which have stopped producing controversial weapons or components for such weapons. It is important that such activities are discontinued permanently.

In the case of involvement in violations of human or employment rights, the dialogue goes further, since violations result from the behaviour of a company rather than from an excluded product such as a controversial weapon. We therefore enter into a far-reaching dialogue with the company if we find that the violation has indeed taken place recently or is still taking place. We then focus on rectifying the violation and on changing behaviour. In the latter case we also want to ensure that the company does not become involved in such violations again in the future.

A dialogue can take several years because a genuine change of behaviour takes time. We attribute greater importance to genuine change than to rapid results, and as long as the company continues to move in the right direction we will remain in discussion and will not exclude the company. However, if we find that the company is not moving sufficiently and that no such movement can be expected, we may decide to exclude the company.

PGGM always makes its own assessment of the involvement in excluded activities on the basis of the information obtained. Such a decision can give rise to dilemmas, for example concerning the definition of substantial involvement. PGGM nevertheless steers its own course, even if that leads to a debate about our policy. Interpretation can lead to differences of opinion and we do not shy away from such differences. If necessary we will actively explain our position. Our aim is to apply the policy consistently.

► ‘Nuclear weapons and Rolls-Royce’, p. 67

7.2 Application to unlisted companies

If investors wish to be consistent in applying the exclusions policy, they must not limit themselves to listed investments. PGGM has therefore applied the exclusions policy to illiquid investments for many years.

In 2010 we took further steps in formalising the application of the exclusions policy to illiquid investments. We formally specified the requirements we would impose on external fund managers with regard to investment restrictions and reporting. These requirements are set out in contracts.

The application of the exclusions policy to illiquid investments demands major efforts both from us and from parties we work with. The incorporation of the exclusions policy as an investment restriction in contracts means that the manager who invests on our behalf is responsible for applying the exclusions policy. Specifying such contract terms is not always an easy matter.

► 'New standard for hedge funds', p. 67

Once again in 2010 we ascertained that the exclusions policy was being applied to over 98% of the portfolio. That does not mean that the remaining 2% breaches the policy; it simply means there is no certainty that it complies with the policy.

KEY PERFORMANCE INDICATORS WITH REGARD TO EXCLUSIONS

	2008	2009	2010	TARGET 2011
% of total assets under management covered by exclusions policy	98%	98%	98%	≥ 98%
Number of excluded companies*	30	33	38	N/A
Excluded companies as proportion of FTSE All World benchmark*	1.23%	1.18%	1.2%	N/A
Number of excluded government bonds	5	5	5	N/A

* Since the assets under management at the end of 2011 are not known, no targets are stated as a percentage of assets under management. The number of excluded companies or government bonds does not constitute a target.

Examples of exclusions

PGGM disinvests from Vedanta Resources

Due to the lack of any improvement, including in human rights compliance, and an insufficiently co-operative attitude, PGGM decided on 1 June 2010 to add Vedanta Resources plc to the exclusions list. This decision followed an increasingly intense dialogue which PGGM had conducted with the company over the past two years on the social and environmental problems relating to its mining activities in the Indian state of Orissa.

Co-operation was also sought with other institutional investors in order to increase the pressure further. In addition to the usual engagement methods, this group of investors organised a round table meeting for Vedanta with various experts in order to discuss possible solutions to the problems in Orissa. Vedanta was unwilling to co-operate with this meeting.

Vedanta plans to extract resources from a mountain that is sacred to the local Dongria Kondh tribe. It has already built a refinery at the foot of the mountain. It says that the refinery and the mine will bring economic development to this impoverished area, but that fails to acknowledge the serious consequences of this activity for the environment and living conditions of the local population.

Vedanta also made no concrete improvements with regard to human rights and environmental care. The company therefore faced a growing risk of reputation damage, which can also translate into financial risks. This combination of factors led PGGM to add Vedanta to its exclusions list. The subsidiaries Sterlite Industries, Hindustan Zinc and Sesa Goa have also been excluded.

Nuclear weapons and Rolls-Royce

PGGM invests on behalf of its clients in Rolls-Royce. Rolls-Royce manufactures engines and turbines for the aviation and shipping industries. The company also designs and maintains nuclear reactors for the United Kingdom's nuclear submarine fleet. This comprises Vanguard Class submarines equipped with nuclear weapons. The main purpose of these vessels is to maintain a nuclear deterrent by enabling nuclear weapons to be launched from any maritime location. PGGM excludes companies that are substantially involved in the manufacture and sale of nuclear weapons, or which supply essential and customised semi-finished products or services for such weapons. The reactor has been specially designed for these submarines. It is therefore a specifically developed component equipped with an excluded weapon. Does that mean our investment in Rolls-Royce violates our exclusions policy?

The question is whether the nuclear reactor in the submarine should be seen as part of the weapon. When considering the possible exclusion of this company we consulted the Responsible Investment Advisory Board and ascertained that even in this case any substantial involvement would be limited in accordance with the policy to the nuclear missile itself. The means of transportation, the submarine and hence the reactor would not be considered part of that weapon, even if it were specially developed for it. The same would apply, for example, to the navigation system or furniture developed specifically for the submarine. We are not therefore excluding Rolls-Royce under our exclusions policy.

We note that this discussion has given rise to a debate. In our opinion, however, we have set clear limits on the involvement in the manufacture and sale of nuclear weapons. Clear limits are essential in order to implement the exclusions policy as consistently as possible across all our investments.

New standard for hedge funds

PGGM began investing directly in hedge funds in 2010. This means that PGGM now only invests directly rather than through selected hedge fund managers.

In this way PGGM can manage hedge fund investment strategies in a responsible, transparent and customised way on behalf of its clients. The direct control of hedge fund managers also leads to a considerable reduction in investment costs. In the hedge fund market it is common practice to invest indirectly in funds of funds.

This development fits in with our strategy of controlling investments more directly and setting the tone in terms of responsible investment. Hedge funds have a good return profile, but are also characterised by limited transparency. By operating in this way we can achieve complete transparency and invest in hedge funds in accordance with our exclusions policy.

Outlook

Knowing what we are investing in and taking appropriate action is what responsible investment is all about for PGGM. With results that include an exclusions policy covering 98% of assets under management, the implementation of 1,557 engagement projects and voting at 99% of shareholders' meetings, it might appear that our task is already complete. But responsible investment is more than just a question of quantity.

We are continuing to raise awareness of the opportunities and risks of environmental, social and good corporate governance factors in our portfolio in 2011. The year will therefore be one of continued development and deepening. Specific attention is being devoted to the following subjects:

- Now that we know more about the ESG factors which have an actual or potential impact on our investment decisions, PGGM has devised up follow-up measures, on the basis of which the investment teams are further integrating ESG in their portfolios. For example, how can we prevent biodiversity risks in infrastructure investments?

- We invest on behalf of our clients in sectors which in some cases entail high ESG risks in terms of both financial performance and reputation. This year we are critically assessing sectors such as mining in order to prioritise our engagement with such companies.

- PGGM will also evaluate its engagement strategy and activities. Where improvements are possible we will take appropriate steps.

- We are completing our research into the social added value of targeted ESG investments. This will give us an insight into the social performance of our targeted ESG investments. Where necessary, this will lead to an evaluation or a new policy framework for these investments. This may also lead to a model enabling us to screen our entire portfolio for a sustainable return.

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 PGGM has a social responsibility as a responsible investor. Responsible investment therefore fits in with who we are. A good return and responsible investment also go hand in hand for PGGM. That means our clients can continue to pay good pensions in 2011 from assets that are managed with respect for humankind and the environment.

Appendix I
Overview of co-operative relationships

Asian Corporate Governance Association (ACGA), www.acga-asia.org

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

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

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

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

CDP is the largest association of institutional investors relating to the effects of climate change on world business. CDP collects relevant information on companies and distributes it to investors. To this end it sends annual requests to companies to take part in the reporting process. Such requests were sent to more than 3,000 companies in 2010.
PGGM is one of the signatories of the letter. PGGM has supported CDP since 2004.

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

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

Eumedion, www.eumedion.nl

Eumedion officially began its work as the successor to Stichting Corporate Governance Onderzoek voor Pensioenfondsen (SCGOP) on 1 January 2006. Eumedion represents the interests of all institutional investors and is an opinion former in the field of corporate governance. On the basis of the responsibilities of institutional investors established in the Netherlands, Eumedion's aim is to maintain and develop good corporate governance and promote acceptance of and compliance with corporate governance standards by listed companies and institutional investors. Eumedion focuses particularly on the Netherlands and Europe. At the end of 2010, Eumedion had 67 members, who collectively represented over €1 trillion of invested assets. Eumedion's membership includes both small and large institutional investors. In addition to Dutch institutional investors, a number of foreign institutional investors are affiliated to Eumedion. PGGM was a co-founder of SCGOP and Eumedion and participates actively in all committees.

European Public Real Estate Association (EPRA), www.epra.com

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

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

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

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

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

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

The staff in our Responsible Investment team are personal members of the ICGN (ICGN has no institutional members). The ICGN has four main objectives: 1) Providing a network of and for investors for the exchange of views and information on international corporate governance subjects; 2) Conducting research into corporate governance principles and practices; 3) Developing and encouraging the adoption of corporate governance standards and guidelines; 4) Promoting good corporate governance in general.

International Sustainability Alliance, www.internationalsustainabilityalliance.org

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

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

PGGM was closely involved in the creation and development of the UN PRI. We were among the first group of signatories and have been sponsors since the principles were launched in April 2006. The PRI are a set of six principles which can be endorsed by asset managers and pension funds to demonstrate their commitment to responsible investment. The principles are intended to offer practical assistance on the incorporation of factors such as the environment, social conditions and corporate governance into investment practice and investment decisions. Over 870 institutions worldwide have now signed the PRI. The invested assets of these parties amounted to around $22 trillion in September 2010. Else Bos, Chief Institutional Business for PGGM N.V., serves on the Board on behalf of Pensioenfonds Zorg en Welzijn. PGGM takes part in all working groups. PGGM also participates in the Private Equity, Infrastructure, Microfinance, Real Estate, Enhanced Research Portal and Reporting and Assessment Workstream (which focuses on implementing the principles in this asset class) and the Sudan Engagement Group. This group does not encourage companies to withdraw from Sudan but does call on companies to adopt a responsible approach and make an active contribution to the reduction of human rights violations in the region.

Appendix II
Abbreviations

ACGA
Asian Corporate Governance Association

AGM
Annual General Meeting (of shareholders)

CDP
Carbon Disclosure Project

CDM
Clean Development Mechanism

CII
Council of Institutional Investors

CIO
Chief Investment Officer

EGM
Extraordinary General Meeting (of shareholders)

ESG
Environmental, Social and Governance

GRI
Global Reporting Initiative

ICGN
International Corporate Governance Network

IIGCC
Institutional Investors Group on Climate Change

ILO
International Labour Organisation

ISS-RiskMetrics
Institutional Shareholder Services, part of RiskMetrics

KPI
Key performance indicator

LEOP
Listed Equity Ownership Policy

PRI
Principles for Responsible Investment

REP
Responsible Equity Portfolio

RI
Responsible Investment department of PGGM

RIRE
Responsible Investment Policy for Real Estate

SBM
Strategic Benchmark

VBDO
Vereniging van Beleggers voor Duurzame Ontwikkeling (Dutch Association of Investors for Sustainable Development)

Appendix III
PRI Index

PGGM is committed to the Principles for Responsible Investment, an initiative of investors in co-operation with the United Nations (UNEP Finance Initiative and UN Global Compact). PRI applies six Principles for Responsible Investment. References to these principles in our reporting on our policy and activities in this annual report are detailed below.

The Principles for Responsible Investment (PRI)

Principle 1.

We will incorporate ESG issues into our investment analysis and decision-making processes

Activities:

▪ Address ESG issues in the investment policy	1.1; 4.1; 5.1; 6.1; 7
▪ Support development of ESG-related tools, metrics and analyses	Section 2; 3.2
▪ Assess the capabilities of external investment managers to implement ESG subjects	Section 2
▪ Ask financial service providers to integrate ESG subjects into their research and analysis	Section 2; 5.1
▪ Encourage academic and other research on this subject	Section 2; 3.2
▪ Promote ESG training for investment professionals	Section 2

Principle 2.

We will be active owners and incorporate ESG issues into our ownership policies

Activities:

▪ Develop and disclose an active share ownership policy 3.1; section 5; 6.1;	1.1; Section 4; 5.1
▪ Exercise voting rights or monitor compliance with voting policy (if outsourced)	Section 4; Section 6
▪ Develop an engagement capability (either directly or through outsourcing)	Section 5
▪ Participate in the development of policy, regulation and standard setting (such as promoting shareholder rights)	Section 5
▪ File shareholder resolutions consistent with long-term ESG considerations	Section 5
▪ Engage with companies on ESG issues	Section 5
▪ Participate in collaborative engagement initiatives	Section 5
▪ Ask investment managers to undertake ESG-related engagement and report on it	Section 5, Section 2

Principle 3.

We will seek appropriate disclosure on ESG issues by the entities in which we invest

Activities:

▪ Ask for standardised reporting on ESG issues (e.g. Global Reporting Initiative indicators)	Section 2; 5.1
▪ Ask for ESG disclosure to be integrated within annual financial reports	5.1; 5.2
▪ Support shareholder initiatives and resolutions promoting ESG disclosure	4.2; Section 5

Principle 4.

We will seek appropriate disclosure on ESG issues by the entities in which we invest

Activities:

▪ Include Principles-related requirements in requests for proposals (RfPs)	Section 2;
▪ Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly	1.3
▪ Communicate ESG expectations to investment service providers	2.2; 2.3
▪ Review relationships with service providers which do not fulfil ESG expectations	Section 2
▪ Support the development of resources for benchmarking of ESG integration	Section 2
▪ Support regulatory or policy developments that enable implementation of the Principles	1.2; Section 5

Principle 5.

We will work together to enhance our effectiveness in implementing the Principles

Activities:

▪ Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning	1.2; Section 2; Section 5; appendix I
▪ Collectively address important issues	Section 5
▪ Develop or support appropriate collaborative initiatives	5; appendix I

Principle 6.

We will each report on our activities and progress towards implementing the Principles

Activities:

▪ Disclose how ESG issues are integrated within investment practices	Section 2
▪ Disclose active share ownership policy (voting, engagement, and/or policy dialogue)	Section 4; 5; 7; 1.2
▪ Show what is required of service providers in relation to the Principles	-
▪ Communicate with participants about ESG issues and the Principles	1.2
▪ Report on developments and achievements relating to the Principles	Summary; appendix III; appendix IV; appendix V
▪ Try to determine the impact of the Principles	2010 Annual Report; appendix III
▪ Make use of reporting to raise awareness among a broader group of stakeholders	2010 Annual Report and 2010 quarterly reports

Appendix IV
GRI Index

The Global Reporting Initiative (GRI) is a worldwide standard for reporting on ESG factors by companies. This GRI Index provides an overview of the activities described in this 2010 annual report based on the GRI indicators (G3, 2006 version) and the GRI Financial Services Sector Supplement (2008 version).

GRI general indicators		Reference section
1.	**Strategy and analysis**	
1.1	Statement from CEO about the relevance of sustainability to the organisation and its strategy.	Foreword
2.	**Organisational profile**	
2.1	Name of the organisation	About PGGM
2.2	Primary brands, products and/or services	About PGGM
2.3	Structure of the organisation	About PGGM
2.4	Location of headquarters	About PGGM
2.5	Jurisdiction	About PGGM
2.6	Legal form	About PGGM
2.7	Markets served	About PGGM
2.8	Scale of the organisation	About PGGM
2.9	Significant changes	About PGGM
2.10	Awards received	Foreword
3.	**Report parameters**	
3.1	Reporting period	Appendix V Accountability and reporting basis
3.2	Date of most recent report	Annual Responsible investment Report 2009
3.3	Reporting cycle	Annual
3.4	Contact point for questions regarding the report	Responsible.investment@pggm.nl
3.5	Process for defining report content	Section 1
3.6	Boundary of the report	Appendix V Accountability and reporting basis
3.7	Limitations on the scope or boundary of the report	Appendix V Accountability and reporting basis
3.8	Reporting basis	Appendix V Accountability and reporting basis

3.10	Explanation of effect of re-statements	Stated where relevant throughout the report
3.11	Change in reporting	Stated where relevant throughout the report
3.12	GRI index	Appendix IV GRI Index
4.	**Governance, commitment and engagement**	
4.1	Governance structure	www.pggm.nl / About PGGM
4.2	Executive function of the board chairman	www.pggm.nl / About PGGM
4.3	Independent and/or non-executive board members	www.pggm.nl / About PGGM
4.4	Influence of shareholders and employees	www.pggm.nl
4.14	Stakeholders engaged	1.2 / www.pggm.nl
4.15	Identification and selection of stakeholders	1.2

Sector supplement for the financial sector

FS1	Policies with specific environmental and social components applied to business lines	Section 1, 2.1, 3.1, 4.1, 5.1, 6.1, 7.1
FS2	Procedures for assessing and screening environmental and social risks in business lines for each policy	Section 2, 4.2, Section 5, 6.2, 6.3
FS4	Process(es) for improving staff competency to address environmental and social risks and opportunities	Section 2
FS5	Interactions with clients and other stakeholders on environmental and social risks and opportunities.	1.2, 1.4, Section 5, Appendix I Overview of co-operative relationships
FS6	Percentage of the portfolio by region, size and sector	About PGGM
FS7	Monetary value of products and services of each business line which have social added value	Section 3
FS8	Monetary value of products and services of each business line which have added value for the environment	Section 3
FS10	Percentage and number of companies held in the portfolio with which interaction has taken place on environmental and social issues	Section 5
FS11	Percentage of assets subject to positive and negative environmental or social screening	2.4, 4.2, 4.3, 5.6, Section 7
FS12	Environmental or social aspects of the voting policy for shares subject to voting right or recommendation	Section 5

In PGGM's opinion, the following GRI indicators are inapplicable or irrelevant having regard to the nature of PGGM's activities:
FS3, FS9, FS13, FS14, FS15, FS16

Appendix V
Accountability and reporting basis

Reporting basis

This PGGM Annual Responsible Investment Report 2010 provides information on the 2010 financial year running from 1 January to 31 December 2010. It is limited to the responsible investment activities which take place within PGGM Vermogensbeheer B.V. Any references in this report to clients are deemed to include clients investing in the funds and clients for whom discretionary portfolios are managed.

Selection of material subjects

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

Guidelines

In compiling the PGGM Annual Responsible Investment Report 2010 we have followed the international reporting guidelines of the Global Reporting Initiative, in particular the GRI Financial Services Sector Supplement (FSSS Final Version, 2008). We report on application level C. That is the highest attainable level, because the annual report concerns activities in asset management and not those at corporate PGGM N.V. level. Appendix VI of this annual report includes a GRI index with the FSSS indicators. Appendix V shows how our policy and activities fit in with the six Principles for Responsible Investment.

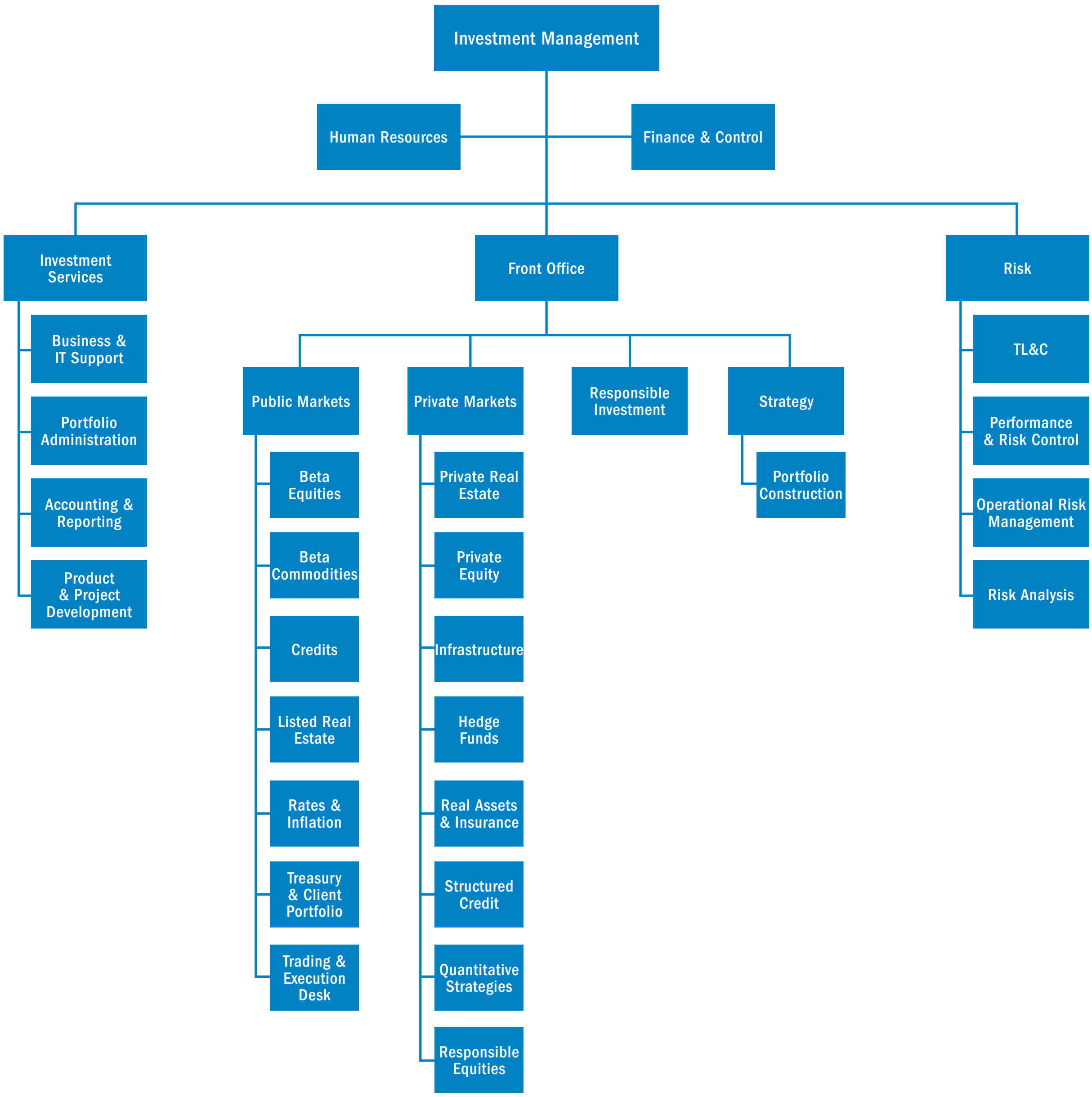
Verification

The text of the PGGM Annual Responsible investment Report 2010 has been verified internally by the Tax, Legal and Compliance department and others. The benefit of external supervision by an independent auditor would (currently) be outweighed by the cost. The non-financial data has been compiled using the databases of the Responsible Investment department and external suppliers.

About PGGM

PGGM N.V. is an administrative organisation for collective pension schemes and operates through a number of subsidiaries. The PGGM group provides pension administration, management support and policy advice as well as integrated asset management. At the end of 2010 PGGM managed around €100 billion of assets of over 2.3 million current and former employees.

PGGM Vermogensbeheer B.V., part of PGGM N.V., falls within the responsibility of the CIO and implements the policy on responsible investment. Jac Kragt, as acting CIO, is responsible for the definition and implementation of this policy.



PGGM Vermogensbeheer B.V. currently employs 250 people, all based at Zeist in the Netherlands.

Our activities

Our clients are responsible for the pensions of over two million participants in the Netherlands. They have instructed PGGM to provide integrated asset management.

PGGM advises its clients on the investment policy on the basis of a strong conviction that responsible investment must form part of this policy. PGGM's clients nevertheless remain the owners of the outsourced pension capital and determine their own pension and investment policy. PGGM always invests on behalf of its clients.

PGGM carries out the asset management on behalf of Stichting Pensioenfonds Zorg en Welzijn, Stichting Bedrijfstakpensioenfonds voor de Particuliere Beveiliging, Stichting Beroepspensioenfonds voor Zelfstandige Kunstenaars AENA, Stichting Pensioenfonds voor de Architectenbureaus and Stichting Pensioenfonds Cultuur. PGGM manages various investment funds for its clients. It also manages discretionary portfolios which belong specifically to one of our clients.

Composition of the managed investment portfolio

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

PGGM and Corporate Social Responsibility

PGGM strives to carry out its activities responsibly. We keep our carbon footprint as small as possible by reducing and offsetting our own CO_2, including emissions from air traffic and leased vehicles, and using only green electricity in our own offices.

In the expansion of our headquarters we are using sustainable materials and installation techniques allowing a reduction in energy consumption. For example, a groundwater-based system has been chosen for the heating and cooling of the building. When the new office building enters service in 2011, we will also introduce our 'new working' methods, which are expected to result in less home/work traffic, and PGGM will start to use more energy-efficient PCs.

Our employment conditions and collective labour agreement are consistent with corporate social responsibility. Our age-aware personnel policy is good example of this. PGGM has a 'Greenteam' which draws attention to green and socially aware business operation.

We are also transparent in our governance and remuneration policy and publish our annual report on our website. We contribute to society by taking part in discussions and meetings on income, care and living, and engage in discussions with the members of our co-operative organisation.

BREAKDOWN OF MANAGED INVESTMENTS BY CATEGORY (AT END OF 2010)

Liquid equities	31.4%
Private equity	6.7%
Real estate	13.5%
Infrastructure	1.5%
Structured credits	1.5%
Investment grade corporate bonds	4.3%
High-income bonds	3.4%
Hedge funds	1.3%
Real assets	0.6%
Insurance	0.8%
Quantitative strategies	0.7%
Mezzanine	0.5%
Emerging market corporate bonds	0.9%
Cash and other assets	0.0%
Commodities	6.9%
Interest rate and inflation risk	26.0%

BREAKDOWN OF MANAGED INVESTMENTS BY REGION (AT END OF 2010)

Emerging markets	8%
Far East	9%
North America	28%
Europa	55%

Colophon

This annual report is published by PGGM Vermogensbeheer B.V.
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Disclaimer

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