Principles for Responsible Institutional Investment in Farmland Report PGGM 2013

On 6 September 2011 PGGM and a group of institutional investors jointly launched the 'Farmland Principles'. These cover the sustainable management of natural resources and the environment, respect for human rights and land rights of local population and the upholding of ethical standards and values in investments in agricultural projects. By signing these principles, PGGM commits to implement them in its agricultural investments and to report publicly on its progress each year.

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Verantwoord Beleggen

Responsible investment in agriculture

PGGM has invested in agriculture on behalf of her client since 2006, with the aim of diversifying the investment portfolio and generating an attractive long-term return. Investments in this sector are not without controversy. It is clear, however, that the sector is urgently in need of long-term investors to meet the challenges of the future, particularly the achievement of food security. PGGM's focus in this area is therefore on implementing strong ESG criteria among its managers and investments.

During the year 2013, no new investments have been made. PGGM continues to manage an agriculture portfolio comprising four investments: three fund investments and one direct investment. These investments consist of purchase and/or lease of (fallow) farmland, improvement of soil quality, increase of scale and efficient production of basic crops such as wheat, rape seed and maize. The farms are located in three major food-producing regions: Eastern Europe, Australia and South America.

PGGM is in dialogue with external fund managers on ESG factors affecting their investments. Increasingly we find investment managers being aware of the importance to address ESG factors proactively; most of them address ESG factors in their regular reporting to PGGM.

We are also focusing on the potential positive impacts from agricultural investments. In 2013 PGGM continued a project on the measurement of the societal impact of so-called targeted ESG investments. Investing in agriculture can provide opportunities to solve the worldwide problem of food scarcity. Although it is difficult to establish a direct link between each euro invested in food production and food security, PGGM seeks to work with the managers to understand and gauge the impact of the investments on global problems. Agricultural investments can make a positive contribution by taking non-productive land into production, increasing productivity and quality of the land. Additional impact can be achieved by contributing to local economic development through employment generation, investments in infrastructure and collaboration with universities and research institutions. PGGM monitors and discusses the performance of the manager on key impact indicators and presented the results to its client.

Implementation of Farmland Principles

- **Principle 1: Promoting environmental sustainability**

The first principle concerns protection of the environment and sustainable management of crops, land and the farm environment, for example by combatting erosion and protecting biodiversity. This requires a survey of environmental risks, which is carried out by all external managers. The environmental risks differ widely depending on the region. For a manager in Eastern Europe, for example, the emphasis will be on removing pollution from agricultural infrastructure (such as asbestos or soil pollution in farms and storage sheds) and increasing production capacity in a sustainable manner (for example by investing in improved soil quality). Elsewhere the biodiversity of rivers and streams is protected by maintaining buffer zones that are more extensive than those prescribed by law.

- **Principle 2: Respecting labour and human rights**

The second principle concerns respect for the rights of workers and local population. All managers are required to comply with local laws and regulations. With regard to workers' rights, the standards applied are in most cases higher than the legal requirements. Points of attention are the type of employment, remuneration and working conditions. Most agricultural investments are in sparsely populated areas. For all fund managers good relationships understanding with the local population are essential to guarantee a successful long term agricultural business.

- **Principle 3: Respecting existing land and resource rights**

The third principle concerns the use and ownership of land and other natural resources. This is an important subject particularly in developing and emerging countries, where land ownership is often not or poorly regulated. This matter is also cited frequently in debates concerning land grabbing. Most of the agricultural land worked for PFZW (around 300,000 hectares) has been purchased. When purchasing land, the external managers must again comply as a minimum with local laws and regulations.

- **Principle 4: Upholding high business and ethical standards**

The fourth principle concerns compliance with local laws and regulations, including in countries where compliance is not always strictly enforced. We require our managers to apply high ethical business standards. Each of our external managers has an anticorruption policy and a code of conduct setting out ethical business standards.

- **Principle 5: Reporting on activities and progress towards implementing and promoting the Principles**

PGGM will report every year on the progress made in implementing these Farmland Principles. When PGGM assesses new agricultural investments, these Principles will form part of the selection process.

Marcel Jeucken

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