

## Declaration of PDN's Investment Principles

(January 2022 version)

### Asset management

PDN has fully outsourced to DPS all of its administrative activities, including those relating to pension insurance and asset management, as well as the asset management itself. This chapter sets out the asset management investment policy and guidelines. It addresses the strategic investment policy, the structure of the asset management activities, the investment guidelines, the risk management method, and the evaluation of the results.

The long-term strategic investment policy for the 2021 to 2023 period is outlined in the fund's strategic policy plan. As well as the strategic goals and ambitions, the strategic policy plan sets out the principles underlying the long-term strategic investment policy. These principles relate to the development of the number of members, the economic assumptions including forecasts regarding interest rates, returns and volatilities, but also to setting premiums and the indexation policy. The strategic policy plan also covers the strategic investment policy and the extent to which the interest rate and currency risk is hedged.

An annual investment plan is drawn up in which the operational investment policy to be pursued is firmed up within the frameworks and risk limits of the long-term strategic investment policy referred to above. The various investment markets and their relative attractiveness are reassessed on the basis of aspects such as macro economic forecasts and the associated risk and return forecasts. The strategic policy is further concretized with frameworks, guidelines, and benchmarks on this basis.

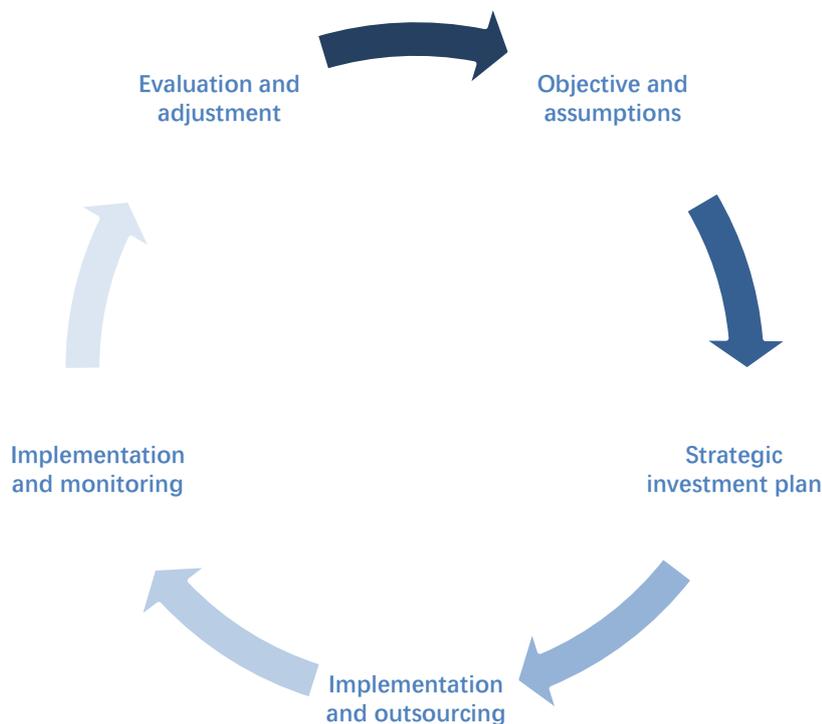
### Strategic investment portfolio

The Board has defined the strategic investment portfolio as follows:

Core portfolio	Standard
Matching portfolio	45.0%
Return portfolio	55.0%
Liquid assets	0.0%
<b>Total</b>	<b>100.0%</b>

## Strategic investment cycle

The Strategic investment cycle describes the different strategic investment cycle steps including the roles of all stakeholders in this process. The cycle comprises five steps as shown in the figure below.



The strategic investment policy is based on policy assumptions (including policy and investment beliefs), as well as on an agreed ambition and risk appetite, taking into account economic scenarios. The policy formation phase takes place in steps one and two with the determination of the objectives and assumptions. The analyses of various policy variants will result in the policy that is recorded in the strategic policy plan and the investment plan from which further implementation and outsourcing takes place in step three. The monitoring and evaluation (steps four and five) take place periodically in monthly and quarterly reporting as well as in accordance with the ongoing policy agenda.

## Market risks

Various risks can be distinguished in the investment portfolio. They are managed by effectively spreading the investments and by striving for the highest possible funding level in order to cover them. The main risks are:

- *Currency risk*  
Strategically, 55% of the currency risk in the return portfolio (excluding alternative investments) is hedged; from a tactical viewpoint, this can fluctuate within bandwidths of +/- 20 percentage points. The currency risk in the matching portfolio is fully hedged.
- *Interest rate and inflation risk*  
The fund's investments and liabilities are sensitive to changes in the interest rate. The fund pursues a dynamic strategic interest rate policy in which the interest rate hedge can be adjusted depending on the level of the nominal interest rate. Strategically, 26% of the interest rate risk is hedged. This ensures that the investments' interest rate sensitivity is matched to that of the liabilities. The inflation risk is partly hedged using a strategic allocation in inflation-linked bonds.

- *Equity risk*  
The equity portfolio has a worldwide spread (diversification), which makes the impact of developments affecting individual companies negligible.
- *Credit risk*  
This is the risk of bonds issued by companies and financial institutions falling in value as a result of declining creditworthiness. The diversified portfolio mainly comprises investments in companies that are sufficiently creditworthy. The creditworthiness is based in part on the assessment of rating agencies.

## Sustainability policy

The Pension fund Board of Stichting Pensioenfonds DSM Nederland (PDN) considers sustainability to be a major aspect of investment philosophy and an integral component of PDN's investment principles. PDN believes that companies that take sustainability criteria into account can have better long-term risk/return profiles, both in a financial and societal sense, than companies that do not do this.

The following six instruments are key in the PDN sustainability policy:

- ESG Integration
- Impact Investing
- Engagement
- Voting Policy and Corporate Governance
- Exclusion
- Transparency

These six instruments form the basis and structure of PDN's sustainability policy and are briefly expanded upon below. Additionally, the Board has specified a number of focus areas in the sustainability policy which are also referred to as Themed Focus Areas. PDN wants to focus on these focus areas in particular through its sustainability policy.

Below, we first expand upon the Themed Focus Areas before further explaining the six instruments.

### Themed Focus Areas

In 2021, PDN set three focus themes with their respective SDGs that PDN wishes to focus on in particular through PDN's sustainability policy. They are: good health and welfare (SDG 3), climate and energy (SDG 7 and SDG 13), and raw materials and circularity (SDG 12). These SDGs are also linked to DSM's three focus areas.

PDN shapes these SDGs with the help of the following instruments: ESG Integration, Impact Investment, Engagement, Voting, and Exclusion.

In signing the broad track of the IMVB Covenant in 2018, PDN endorses the UN Sustainable Development Goals, the OESO guidelines for multi-national companies, and the UN Guiding Principles on Business and Human Rights. In committing to these guidelines and principles, PDN aims to focus on specific societal developments that are important for its members and have been identified as high risk for its investment portfolio. As part of this, PDN aims to dedicate particular focus to two sustainability themes: (i) climate change and (ii) controversial weapons. This concerns the prevention of negative societal and environmental impact in the investment portfolio. These two themes are also important when considering potential investments. An explanation of these two themed focus areas is given below.

## ESG Integration

Where possible, PDN manages and evaluates investments according to ESG factors. ESG stands for Environment, Social, and Governance. Sustainability risks for the portfolio and other ESG aspects are considered when making investment decisions in the various mandates. The way in which societal issues in the form of ESG aspects are embedded in the investment decisions differs for each investment category and mandate. A minimum level of ESG integration is required to safeguard each investment or interest in a company. In addition to PDN endorsing the ESG due diligence steps in accordance with the OECD guidelines, PDN also expects its fiduciary managers, ESG service providers, asset managers, and companies in which PDN invests to act in accordance with the OECD guidelines for multinational companies and the UN's Guiding Principles on Business and Human Rights, and to report on this. PDN also expects its fiduciary manager and asset managers to have a sustainability risks policy.

PDN monitors the progress and impact of the sustainability policy by measuring how the investment portfolio scores on a number of sustainability data such as ESG scores, Controversy scores, climate risks, scope 1, 2, and 3 CO<sub>2</sub> emissions, and SDG impact.

## Impact Investing

Investment opportunities that can also help solve societal and environmental problems are very important to PDN. PDM aims to design part of its portfolio with investments that can be designated as impact investments.

## Engagement

PDN places a high priority on engagement. Engagement is used to enter into a series of intensive dialogues with companies whose practices are not in line with the UN Global Compact's principles and where potential or actual negative impact has been identified. Engagement goes beyond the voting policy at shareholders' meetings. Engagement is often used as a means of entering into dialogue with a company, regardless of whether it is a shareholder or not. This also means that engagement can be applied in cases involving bonds.

## Voting Policy and Corporate Governance

PDN uses its voting approach to monitor all Dutch listed companies in which it invests for material affairs, including but not limited to the company's business model for creating long-term value, the company strategy, performance and risks and opportunities, the capital structure, societal and ecological effects, corporate governance, and corporate actions – such as mergers and acquisitions. Material affairs are affairs that will probably have a significant effect on the capacity of the company to create long-term value.

## Exclusion

PDN's investment policy produces an investment portfolio that reflects its standards and values. PDN excludes companies and countries based on the risk of negative impact and conflict with PDN's own norms and values. PDN's exclusion policy applies to PDN's segregated mandates within the investment categories of shares, listed real estate, corporate bonds, and state bonds.

## Transparency

PDN publishes an annual sustainability report to ensure transparency about the sustainability policy and its implementation. In this report, PDN indicates how it handled sustainability in that year and which results it has achieved with respect to sustainability. In the context of transparency about where PDN invests, PDN publishes an annual overview of the total investment portfolio on its website. PDN will also provide a Vote Summary Report of shareholder meetings on its website. The PDN Magazine and the website also regularly feature items on PDN's sustainability policy.