

Declaration of PDN's Investment Principles

(January 2021 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%
Total	100.0%

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.

Social responsibility

In view of the societal position of Stichting Pensioenfonds DSM Nederland, the Board not only takes financial aspects into account in defining and implementing its policy: It also observes aspects that are essential to achieving sustainable and inclusive social progress. The fund has developed policy relating to Socially Responsible Investing, in which the fund's primary responsibility for pension assurance and for pension payments to members as agreed with the employer explicitly prevail.

The fund's policy is based on seven pillars:

Themed focus areas

In signing the broad track of the IMVB Covenant in 2018, PDN endorses 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. Against this background, PDN aims to work particularly on 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.

ESG Integration

Where possible, PDN manages and evaluates investments according to ESG factors. ESG stands for Environment, Social, and Governance. ESG aspects are considered when making investment decisions in the various mandates. The way in which societal issues are embedded in the investment decisions as ESG aspects differs for each investment category.

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 OESO guidelines, PDN also expects its fiduciary managers, ESG service providers, asset managers and companies in which PDN invests to act in accordance with the OESO guidelines for multinational companies and the UN Guiding Principles on Business and Human Rights, and to report on this. Both for internal awareness as well as communication with third parties, the ESG integration will be further clarified through documentation in the investment cases.

PDN includes its CO₂ policy in the Environment factor. Within the guidelines for European and US shares managed by DPS, additional emissions targets have been set to achieve a total reduction of 20% over a three-year period (by the end of 2020) compared with the respective benchmarks (benchmark at the end of 2017).

Impact Investing

Investment opportunities that can also help solve societal and environmental problems are very important to PDN. PDN aims to design part of its portfolio with investments that can be designated as impact investments. The fund has been linking a small part of the invested assets to the UN's Sustainable Development Goals to which they contribute since 2020. PDN classifies the Impact Investments when a clear societal contribution is made to the UN's seventeen Sustainable Development Goals (SDGs). The seventeen UN Sustainable Development Goals (SDGs) form a clear framework against which the portfolio's impact can be compared. Further policy will be developed in 2021 relating to KPIs and measuring 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. Given the intensity involved in entering into dialogue with many dozens of companies on various subjects and the economies of scale that can be achieved, BMO has been appointed as an external engagement provider for this purpose.

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.

PDN's policy for good governance is intended to protect its interests as a shareholder while at the same time living up to its responsibility in that role.

Wherever there is an indication that a company is not living up to proper principles of social responsibility, PDN has several options to exert an influence. For example, PDN votes actively in the meetings of shareholders of Dutch companies. Where these voting initiatives do not have the desired effect, PDN still has the option to pursue a process of engagement or to divest its holdings in the relevant companies. The fund's voting policy and voting behavior are set out on the website [PDNpensioen.nl](https://www.pdnpensioen.nl).

Exclusion

We exclude activities in companies and countries that the United Nations, the European Union, or the Dutch government deem unacceptable. The fund therefore does not invest in companies that fail to act in accordance with the 10 principles of the United Nations Global Compact. Producers of controversial weapons such as nuclear weapons, biological weapons, chemical weapons, depleted uranium munitions, and white phosphorus munitions that do not fall under the exclusion criteria of the Global Compact (such as cluster munitions) are also excluded. To identify companies and countries for exclusion, Sustainalytics carries out screening on behalf of the fund to establish the companies and countries in which the fund should not invest. Sustainalytics screens both developed and emerging markets on the above criteria.

Based on these criteria, the fund excludes not only equities but also corporate and government bonds. State bonds of countries that are sanctioned by the United Nations or the European Union are also excluded from the investment universe.

For the most part, these sanctions relate to human rights and weapons issues. External managers are kept informed of the exclusions with the exception of mutual funds where it is not possible to integrate fund criteria.

Transparency

PDN will publish an annual sustainability report to ensure transparency about the sustainability policy and the implementation of this. In this report, PDN will indicate 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 will publish an annual overview on its website of the total investment portfolio. PDN will also report the results of votes at shareholders' meetings on its website. To conclude, the PDN Magazine and the website regularly feature items on PDN's sustainability policy.

In signing the IMVB covenant in 2018, PDN has pledged to anchor the OECD guidelines and UN Guiding Principles into the policies of the pension fund, the outsourcing of activities to external service providers, and the monitoring and reporting on this topic. From 2021, PDN will report on progress in implementing the agreement in its sustainability policy.