pensioenfonds PGB

ANNUAL REPORT 2021

STICHTING PENSIOENFONDS PGB

ANNUAL REPORT 2021

69th FINANCIAL YEAR

Inhoudsopgave

Pensioenfonds PGB at a glance

Foreword

As in 2020, the coronavirus pandemic made its mark on the lives of many people during 2021, including those of our participants, employers and all other stakeholders of the fund. At the time of writing of the first versions of this foreword, this still appeared to be one of the most significant developments for review, and the first signs of recovery also seemed to be emerging.

However, before the publication of the Annual Report, this was overtaken by events. The Russian invasion of Ukraine in February this year had a major impact. Naturally, we have been affected by the major drama on the human level. In April, the situation remains harrowing. We do not know how this conflict will progress, but it is clear that it is having an impact on the global economy and consequently also on us, as a pension fund. The Board has considered the effects in detail. We looked at our investments, but also the consequences that our participants are already experiencing, such as rising energy prices, leading to reduced spending power. As yet, nothing can be said with any certainty about the long-term effects on the development of the pensions. We will keep you informed of this as well and as often as possible in the course of this year.

For the first time in years, we have been able to slightly increase pensions

Looking back at 2021, we see that our financial position strengthened during the year. Consequently, for the first time since the financial crisis in 2008, we were able to slightly increase pensions on 1 January 2022. The strict rules that apply for this meant that we could only allow our participants to benefit from that improved financial position to a small extent.

It may be possible to pay out a little extra later this year. As always, we will carefully consider the interests of all our participants and of the other stakeholders. The legislator appears likely to offer scope for this with the transitional rules for the new pension system. Naturally, we are dependent in this context on further developments in the financial markets, which are uncertain.

We were pleased to be able to welcome another two new sectors to our pension fund in 2021: the agrarian and food supply trade, and the travel sector. Various employers also joined us voluntarily and almost all affiliated employers renewed their contracts. This is in line with our strategy of managed growth, by means of which we aim for both new customers and retention of our existing customers through excellent service provision.

With regard to that service provision, we are able to offer our participants more and better financial insight through continuing digitisation. Our new public website went live in 2021 and we worked hard on our new participants' portal, which is expected to become available to all our participants in the second quarter of 2022. We do not regard *digital* as the opposite of personal. On the contrary, we give priority to personal information, accessibility and *personal* contact in all digital developments.

I also want to review the additional effects of the coronavirus pandemic on the contacts with our support base and the people in our organisation in this light. Talks with social partners on the new system largely took place digitally, as did our meetings with participants. Our former CEO Ruud Degenhardt was awarded a Royal honour at the end of 2021. But unfortunately, the lockdown meant that no-one could attend the deferred farewell ceremony of Board members in person. The introduction of our new Board member Frans van de Veen also took place digitally. Frans succeeded Peggy Wilson, who I thank here for her years of work for Pensioenfonds PGB. My thanks also go to Board member Henny Kapteijn, who stepped down from the Board after 10 years on 1 April 2022. We have come to know Peggy and Henny as strongly committed Board members who left their mark on issues that matter to our participants.

A great deal is happening in the world around us at this time. I see discussions on the conflict in Ukraine, the global economy, climate change and closer to home, rising prices. In this complex reality, we strive to perform our task as a pension fund as well as possible: that of continuing to offer security to our participants and employers.

Amstelveen, April 2022

Jochem Dijckmeester
CEO, Pensioenfonds PGB

Profile

MISSION

Pensioenfonds PGB offers security for the future

We do this by administering our pension schemes in a future-proof manner, bearing in mind the interests of all stakeholders, and aim for optimal added value for the premiums contributed. In this way, we ensure that our participants have an additional income in their old age, including if they become disabled, today, tomorrow and far into the future. And that their surviving dependents are insured against the consequences of decease. Our ambition is an affordable, modern pension which retains its purchasing power in the long term as far as possible.

Pensioenfonds PGB is more than money

Pensioenfonds PGB also aims to be significant in other ways, both during the accrual of pensions and in the period in which pensions are paid out. On the basis of our social tradition, we believe in not-for-profit cooperation and the power of collectivity. We therefore work for benefits of scale in the interests of our participants, via managed growth and partnerships. We believe that this enables us to offer the best to both our existing and new participants, and that in this way, we contribute towards a healthy and future-proof pension system.

VISION

Many people are uncertain about their money for later

The world is becoming more complex all the time and pensions are increasingly under pressure. Pensioenfonds PGB aims to offer a counterweight to that. We aim to eliminate anxiety and uncertainty about pensions. We do this by offering security, being comprehensible, removing abuses and by making pensions transparent.

Working for innovation and managed growth

Pensioenfonds PGB has learned to face up to challenges and to take action. We work for innovation in our services for participants and employers, pension schemes and investment policy. And aiming for managed growth makes investments and costs easier to absorb and creates a better spread of investment risks. Because different sectors and companies can join the fund, Pensioenfonds PGB has grown to become a reliable shelter in which many sectors, employers and participants can feel at home, now and in the future.

CORE VALUES

TOGETHER
We believe in the power of collectivity and work together with our partners. We do this on the basis of the idea that we are connected to each other and want to make a positive contribution.

COMMITTED
We devote attention to our participants, employers and social partners, their pensions and their future. We do this in the most personal way possible.

AUTHENTIC
Our past defines who we are: flexible and innovative in the interests of the participants. We move with the times, but do keep an eye on the costs in this context.

CLEAR
We regard openness as important. As we do offering insight into pensions and sharing expertise.

STRATEGY
The strategic principles for the coming years focus on the following:

The Pension Accord
Together with our participants, employers and the social partners, we are moving towards a new pension system. We will take our participants through these changes by providing clear information during the transition period. We will conduct talks with social partners and employers in order to gain an insight into the requirements for our service provision and products. We will also support them in the choices they have to make. We will ensure that we are ready for the new pension system in time and will make use of the opportunities to cut costs, reduce the complexity and increase confidence.

The new pension chain
We are working on a new pension chain in the run-up to the new pension system. This includes a new administrative system and is intended to add value for customers by increasing user-convenience, financial insight and online service provision.

A more customer-oriented organisation
All our activities are focused on our customers (participants, employers and the social partners). We do this by conducting extensive research into different customer groups (customer segmentation). Our organisation is increasingly managed on a customer-oriented basis. We use the contacts we have built up and experiment with the deployment of new forms and methods of communication, in order to increase the engagement of our participants and employers and to gain an even better insight into their needs.

Brief overview 2021

Number of participants
at year-end 2021

125,045
Participants accruing pensions

94,124
Retirees

217,105
Non-contributory participants

Current UFR funding ratio
at year-end 2021

116.8%

Policy funding ratio
at year-end 2021

111.5%

Employers
at year-end 2021

4,004

Invested assets
at year-end 2021

€ 36.9
billion

Return
during 2021

6.2%

2021 Summary

Towards the new pension system

We aim to properly inform all our business relations on the new system and the various choices that have to be made. The first talks for that purpose were conducted in 2021 with the 30 largest employers. Several online interactive sessions were conducted for participants. We also worked intensively with all sectoral committees in 2021.

Renewal of the pension chain

For optimal, cost efficient administration of the new system, we are working on a new pension chain for both pension and asset management. This also calls for the development of a new pension administration system. We are working on this together with Achmea. The new chain is intended to lead to more efficient administration, including through online self-service.

Premium policy

As in 2021, the basic premium for 2022 was set at 28%. In order to keep this unchanged, the Board considered the potential consequences of a premium increase for the different groups of stakeholders in the light of the improved financial position and the transition to the new pension system.

Raising pensions

We closed the year 2021 with a policy coverage ratio of 111.5%. This created scope to raise pensions for the first time in years. The pensions will be increased by 0.23% in 2022, retroactively to 1 January 2022. We will use the maximum statutory scope afforded for this.

New connections

Two new sectoral pension funds joined us in 2021. This led to a substantial increase in the number of participants: 5,327 from the travel sector and 24,612 from the agricultural and food supply trade. In total, we now administer pension schemes for 125,045 participants, on behalf of 4,004 employers from 17 sectors.

Socially responsible investment and sustainability risks

The Board discussed the course for socially responsible investment (SRI) in the coming years during 2021. The purpose of this was also to prepare for the tightening of the investment convictions. We regard sustainability as necessary to ensure that our participants can enjoy good pensions in a liveable world. We therefore assess all our investments in terms of the elements of returns, risks, costs and sustainability. We also involve our participants in the choices that we make and the dilemmas that we face in this regard.

A more customer-oriented organisation

We will take steps towards a more flexible and customer-oriented organisation in 2022. This will focus even more closely on the needs of our participants, as well as on the customer satisfaction of the social partners and employers. Behind the scenes, we worked hard on the preparations for this in 2021, including improvement of the participants' portal and the new website.

Key Figures 2017-2021

At the end of and for the years 2017-2021 respectively.
Note: all amounts of the key figures are rounded off to millions of euros, with the exception of the pension administration costs per participant. The percentages are calculated on the basis of amounts that were not rounded off.

	2021	2020	2019	2018	2017
Number of employers					
Affiliated employers	4,004	2,594	2,577	2,555	2,434
Number of participants					
Contributing participants	119,740	89,139	82,110	73,705	70,347
Participants with allocation due to incapacity for work	5,305	4,390	4,262	4,423	4,495
Non-contributory participants [1]	217,105	163,123	157,167	165,663	160,845
Total	**342,150**	256,652	243,539	243,791	235,687
Number of pensions					
Commenced retirement pensions	67,792	58,242	56,511	54,765	53,097
Commenced partner's pensions	25,481	22,669	22,314	22,172	21,707
Commenced orphan's pensions	851	749	802	809	814
Total	**94,124**	81,660	79,627	77,746	75,618
Pension administration					
Premium contributions	923	814	701	599	561
Pension benefits	766	719	694	675	652
Pension administration costs	36	33	31	28	26
Regular pension management costs per participant	166	187	188	176	175
Investments					
Investments for risk of pension fund including negative derivatives	36,568	32,196	29,989	25,542	25,633
Investments for risk of participants, including negative derivatives	311	232	187	141	134
Total value of investment portfolio, including negative derivatives	36,879	32,428	30,176	25,683	25,767
Investment return of total portfolio	2,185	2,008	4,105	-589	1,607
Total return in %	6.2	6.8	16.0	-2.3	6.7
Z-score	0.75	-0.69	-0.14	-0.29	0.51
Performance tests	0.07	0.18	0.58	0.60	0.87
Asset management costs as % of average invested assets	0.43	0.41	0.43	0.42	0.44
Changes in equity and solvency					
Technical provision for risk of pension fund	31,621	30,985	28,229	24,313	23,356
Technical provision for risk of participants	312	229	185	140	133
Equity capital	5,380	802	1,536	917	2.047
Current pension assets (excluding risk participants)	36,998	31,785	29,763	25,229	25,403
Minimum equity capital requirement	1,349	1,289	1,182	1,015	986
Equity capital requirement based on strategic investment portfolio	38,002	36,691	34,049	29,524	28,401
Free reserve (+)/reserve shortfall (-) based on strategic investment portfolio	-1,004	-4,906	-4,286	-4,294	-2,998
Average actuarial interest rate in %	0.56	0.16	0.71	1.35	1.47
Current UFR coverage ratio in %	116.8	102.6	105.4	103.8	108.7
Policy coverage ratio in %	111.5	96.3	103.3	108.7	106.1
Real coverage ratio in %	89.7	79.4	83.7	89.2	86.6
Required coverage ratio in %, based on actual investment portfolio	123.4	116.5	121.0	119.2	121.5
Required coverage ratio in %, based on strategic investment portfolio	120.0	118.3	120.5	121.3	122.1
Increase in pension payments and entitlements as at 1 January in %					
Supplement	_	_	_	_	_

[1] *Non-contributory participants include pension beneficiaries who have not yet applied for their pensions.*

Outlook

Pensioenfonds PGB is convinced that the mission, vision and strategy enable us to navigate well towards the future. We intend to continue on the strategic course that Pensioenfonds PGB taken in the coming years: offering security en route to the future with a new pension system.

We continue to build together on pension schemes that are aligned with the world of today and tomorrow

In order to realise the transition successfully, we are working to further strengthen relationships: the added value of working together. With social partners and employers, we continue to build on our social tradition for pension schemes that are aligned with the world of today and tomorrow. In view of the changes, the engagement of our participants is also important. We invest in still better analysis of the needs of participants, sub-divided into various segments. Many people are uncertain about how much money they will have for later. The path towards the new pension system is an ideal opportunity to match existing and new services to customer requirements.

In addition to strengthening our relationships, the renewal of the pension chain is an important condition for realising a successful transition to the new pension system. We go further than simply implementing the new pension schemes here. The new chain, with a new administration system and advanced communication channels, also call for a more customer-oriented organisation. In this way, we can continue the managed growth. Thus enabling Pensioenfonds PGB to continue to strengthen the power of the collective, in the interests of the participants.

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Important developments that we see and include in our policy

Legislation and supervisory framework
The Pension Agreement responds to a fundamentally different approach to pensions, i.e. pensions as a result of premiums invested for investment capital.

Demographic changes
By 2035, increasing life expectancy and falling birth rates will lead to a Dutch demographic with two employed persons for every retiree, compared with three employed persons per retiree at present.

Sustainable investment
Sustainable development meets the living needs of the current generation without harming those of future generations. Participants want good pensions in a liveable society.

Digital developments
The digital revolution not only changes people’s behaviour and expectations, but also the ways in which new services are provided. In combination with the coronavirus pandemic, these developments accelerated further.

The Ukraine invasion
No-one foresaw the armed conflict in Ukraine in 2021. This certainly also has consequences for the economy and, therefore, for our investments and inflation. These consequences are difficult to predict. Much depends on the duration and cessation of the conflict.

Priority areas for 2022

On the basis of the strategic course, we will develop a number of major themes in 2022. We explicitly take account of the main trends and developments that Pensioenfonds PGB foresees in this context (see box).

Firstly, we follow up the process for realising a successful transition to the new pension system, together with our employers and the social partners. With the prospect of finalised legislation in 2022, we can work towards a clear realisation of the future pension schemes and the related services in the coming year. The new pension administration system (RAP) forms part of this. The social partners and employers with worker representation will have to make a choice between two variants: the inclusive or the flexible contract. We will invest further in guidance for that choice during 2022.

2022 is also the year in which we will reassess our commitment to sustainable investment. Pensioenfonds PGB regards sustainable investment as necessary in order to ensure that our participants can enjoy good pensions in a liveable world. In order to realise our pension ambitions in the long term, we already assess our investments in terms of returns, risks, costs and sustainability. We will develop that assessment in the course of the year, in terms of policy, reports and evaluations, in order to be able to put it into practice.

We also continue to invest in communications. The Financial Insight Tool (FIT) project begun earlier will be followed up, with the aim of offering our participants a practical tool for gaining insight into their personal financial futures. We will also follow up the successful experiments with setting up and expanding our communities. These have proved themselves as easily accessible platforms for making and maintaining contacts with stakeholders, such as young people and our association of retirees. That also enables us to continue to make balanced assessments of interests.

These themes are a sample of the initiatives with which Pensioenfonds PGB is shaping the future. The aims are to offer security to participants and employers and to contribute towards a healthy and future-proof pension system.

Pensioenfonds PGB in 2021

Balance sheet and asset management

Pensioenfonds PGB invests the pension capital in order to allow it to grow in relation to the liabilities, to provide the best possible pensions for our participants. Thanks to positive returns on the share markets, despite the coronavirus pandemic, the return on investments was 6.2%. Pensioenfonds PGB is also taking steps in the field of socially responsible investment in order to make the investments more sustainable.

Financial markets in 2021

In 2021, interest rates, corporate loans and share prices rose, aided by monetary stimuli and catch-up demand following the lockdowns imposed. The restrictive lockdowns led to changing demand and disruptions in the global supply chains. This tightness led to higher prices. This will continue until companies can restore and expand their production and delivery capacity, so that prices can fall again somewhat. The lockdowns were destructive for many SMEs and self-employed persons, while large technology companies benefited from the increased online shopping activity. The surplus liquidity through buy-up programmes of central banks kept interest rates low for government and large companies. Various European governments have stated that they wish to deploy a large part of the support measures for improved sustainability and the environment. Central banks are keeping interest rates low for the business community and governments with high debts. This is consistent with Pensioenfonds PGB's *low for longer* scenario, which assumes that European interest rates will remain relatively low and inflation will ultimately fall again. In the first instance, the effect of low interest rates is positive for shares, which benefit from lower financing costs and higher dividend returns in relation to the low interest rates. However, lower interest rates show that central banks and investors regard the macro-economic growth environment as fragile. This fragility can lead to lower and disappointing profits, and consequently, to lower returns on shares. The other risk is that higher inflation due to offering disruptions and commodity shortages will be translated into structurally higher inflation and, therefore, also into higher interest rates.

Investment results in 2021: positive return on investment

Despite the coronavirus pandemic, the investment portfolio realised in positive result due to the strong financial markets in 2021. Interest rates rose slightly in 2021, which had a negative impact on the returns on fixed-interest securities. However, the value of liabilities fell more sharply, which had a positive effect on the coverage ratio. The result of the return portfolio was strongly positive.

Table 1: *Return on investment*

	Return	
	Pensioenfonds PGB	Benchmark
	%	%
Total return	**6.2**	**5.1**
Matching portfolio	**-7.4**	**-8.8**
Euro government bonds, interest rate swaps and futures	-13.6	-
Euro corporate bonds	-1.0	-
Mortgages	1.9	-
Euro liquidities	-0.7	-
Return portfolio	**16.5**	**16.5**
Equities	20.2	19.4
Alternative real assets *	18.3	20.2
Alternative fixed-income securities **	3.4	3.9
**** Alternative real assets***	**18.3**	**20.2**
Real estate	16.9	20.2
Infrastructure	20.0	19.2
Private equity	23.0	30.1
***** Alternative fixed-income securities***	**3.4**	**3.9**
Corporate bonds, emerging markets	1.2	1.0
Bank loans	5.7	5.8
High yield-bonds	5.3	4.7
Direct loans	7.7	4.6

The net return on the total investments of Pensioenfonds PGB was 6.2% in 2021, with a benchmark of 5.1%. The investments are sub-divided into a matching and a return portfolio. The net return of the matching portfolio In 2021 was 7.4% negative and that of the return portfolio 16.5% positive.

Matching portfolio

The matching portfolio contains fixed-interest securities with a low risk, intended to match developments in the value of the pension liabilities. The management of the matching portfolio is integral. This means that the focus of the management of the matching portfolio lies on the pension liabilities and not on the underlying investment categories. As a result, it is possible to efficiently deploy the risks and returns on the different instrument available, without taking account of intermediate benchmarks for each investment category.

Due to higher interest rates, the return on the matching portfolio was 7.4% negative in 2021. The return on the benchmark, the pension liabilities, was 8.8% negative. The better return than the benchmark was due to allocations to corporate bonds and mortgages, which outperformed the benchmark.

Return portfolio

The return portfolio contains investments in real assets and fixed-interest securities with a higher risk. The return portfolio realised a return of 16.5% in 2021, equal to the return on the benchmark. The share portfolio outperformed the benchmark, due to good performance of the factor investments. The alternative real assets trailed the high returns in the share markets, partly because the return figures for this category are calculated on the basis of the valuations known at the close of the year. These were primarily valuations for the third quarter of 2021, as a result of which the good returns in the fourth quarter were not yet included. The alternative fixed-interest securities underperformed the benchmark due to extraordinary transaction costs.

Dynamic policy: slightly positive contribution in 2021

The balance sheet risks relating to interest rates, shares and currencies are managed on the basis of valuation (risk premiums) and sentiment (momentum). On the basis of these indicators, and in line with the positive sentiment in the share markets, the share allocation was increased step by step until the end of August. Given the emergence of the Omicron coronavirus variant and deteriorating sentiment in emerging markets, the steering for shares in this region was brought back to neutral in early December. Brexit developments, the transfer of power after the American presidential elections and improved manageability of the coronavirus pandemic led to rallies in the financial markets last winter. Truly major risks did not manifest themselves and in anticipation of high realisations of inflation figures, the extra interest rate hedging was reduced to neutral in January. Later in the year, in line with the negative developments in the Chinese real estate market and China's tougher attitude towards Taiwan, the balance sheet risk was reduced from August to October by increasing interest rate hedging. The dynamic balance sheet management made a positive contribution of 0.1 funding ratio points in 2021 (2020: positive contribution of 1.3 funding ratio points).

Z-score: positive for 2021, above the required minimum over five years

Pensioenfonds PGB must calculate a Z-score in accordance with the requirements for mandatory sectoral pension funds. A positive Z-score of 0.75 was realised for 2021 (2020: negative score of 0.69). The performance test for the period from 2017 to year-end 2021 amounted to 0.07 (2020: 0.18). The performance test therefore remains above the required minimum of 1.28 negative.

The Sectoral Pension Funds (Obligatory Membership) Act 2000 (Exemptions and Penalties) Decree offers companies an opportunity to obtain an exemption from the obligation to participate in a sectoral pension fund if the performance test, conducted over a period of five calendar years, shows that the actual yield of the pension fund differs substantially, in a negative sense, from the yield of the standard portfolio established by the pension fund. A substantial difference, in a negative sense, exists if the outcome of the calculation of the performance test is less than the required minimum of 1.28 negative.

Investment policy 2021

In 2021, the policy on shares and high-yield securities was reviewed. Together, these determine the majority of the return portfolio. The main change to the high-yield securities strategy plan is a proposed investigation into allocation to local currency debt, with which a currency risk premium can be earned, and allocation to 'loans from development banks', with which the contribution to sustainable investments (see the 'Social Responsible Investment' section) can be increased. For shares, a choice was made to aim for a more innovative portfolio in which socially responsible investment, artificial intelligence and big data play a major or larger role. The long-term reference portfolio was unchanged.

Investment policy: dynamic, including in 2021

The investment policy of Pensioenfonds PGB is dynamic. It is based on the risk propensity of the participants and our ambition to retain as much purchasing power, or indexation (increases) of the pensions as possible.

There is a dynamic in the choices of participants between the chance of indexation and the risk of cuts:

- With high funding ratios, full indexation is possible and there is a desire to take fewer risks.
- With low funding ratios, there is a desire to limit the risk of (large) cuts by taking fewer risks.
- In between, the most risk can be taken to increase the chance of indexation.

With low funding ratios, the chance of indexation falls and the risk of cuts rises. In that case, Pensioenfonds PGB gives preference to the chance of retaining indexation in the long term over the risk of cuts in the short term.

Risk budget

The degree of risk-taking, the risk budget, follows the nominal funding ratio in terms of market value and is recorded in the policy matrix (see Table 2). This is the total risk, primarily for shares, interest rates, currency and credit, and is shown in the form of a required equity (VEV) percentage. This percentage is based on a model that uses the VEV method of DNB.

Table 2: *Policy matrix*

Funding ratio regime	Swap funding ratio	Strategic risk budget	Risk budget -2.5% VEV	Risk budget +2.5% VEV
High	150%	17.1%	14.6%	19.6%
	145%	18.1%	15.6%	20.6%
	140%	19.2%	16.7%	21.7%
	135%	20.2%	17.7%	22.7%
Medium	130%	21.3%	18.8%	23.8%
	125%	22.3%	19.8%	24.8%
	120%	22.3%	19.8%	24.8%
	115%	22.3%	19.8%	24.8%
	110%	22.3%	19.8%	24.8%
	105%	22.3%	19.8%	24.8%
	100%	21.4%	18.9%	23.9%
Low	95%	20.5%	18.0%	23.0%
	90%	19.1%	16.6%	21.6%
	85%	18.3%	15.8%	20.8%
	80%	17.6%	15.1%	20.1%

Pensioenfonds PGB may vary the risk budget slightly, i.e. may take a little more or a little less risk than the matrix prescribes. A maximum of 2.5 VEV percentage points is available for this purpose. Market conditions (momentum) and expected returns (risk premiums) are taken into consideration in this context. If these indicators are positive, a maximum of 2.5 percentage points more risk may be taken. If the indicators are negative, a maximum of 2.5 percentage points less risk can be taken. At year-end 2021, the VEV risk budget was 23.6% and the risk budget was 22.3% (see Graph 1).

Graph 1: *Risk use*

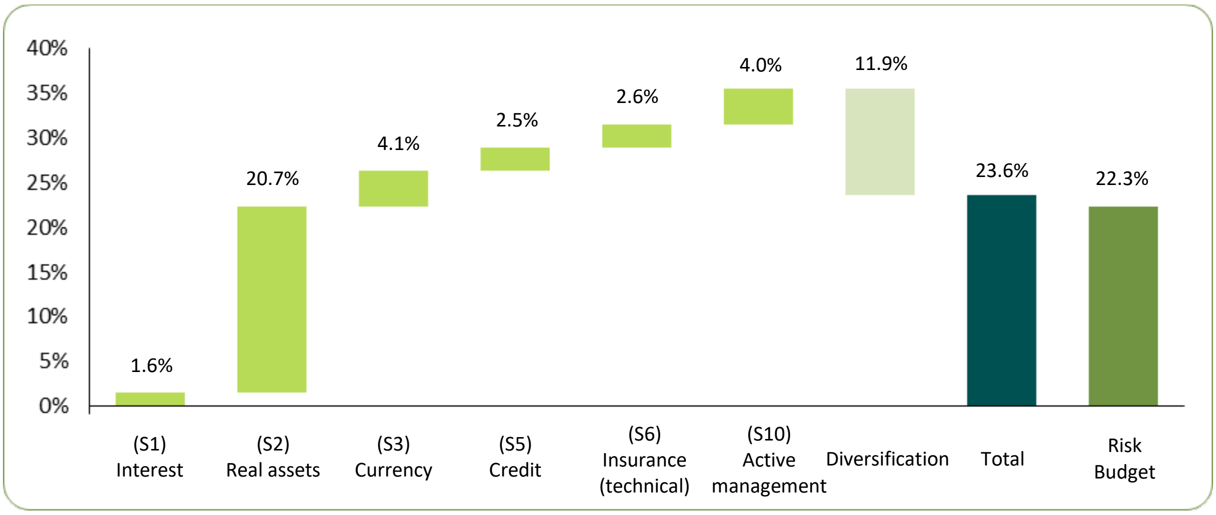


Table 3: *Investment portfolio*

	Actual portfolio 31 December 2021	Strategic portfolio 31 December 2021
	%	%
Matching portfolio	**34.2**	**42.5**
Euro government bonds, interest rate swaps and futures	12.5	17.5
Euro corporate bonds	12.7	20.0
Mortgages	5.0	5.0
Euro liquidities	4.0	-
Return portfolio	**65.8**	**57.5**
Equities	51.9	42.8
Alternative real assets *	5.0	5.0
Alternative fixed-income securities **	9.7	9.7
Liquidities	-0.5	-
Currency hedging	-0.3	-
**** Alternative real assets***	**5.0**	**5.0**
Real estate	2.2	2.2
Infrastructure	2.5	2.5
Private equity	0.3	0.3
***** Alternative fixed-income securities***	**9.7**	**9.7**
Corporate bonds, emerging markets	3.0	3.0
Bank Loans	4.2	4.2
High-yield-bonds	2.0	2.0
Direct loans	0.5	0.5
Interest hedging rate	**43.7**	**43.7**
Currency hedging rate	**62.1**	**63.3**

Portfolio structure: matching and return portfolio

In an ALM study, the focus lies primarily on the policy matrix and the interest-rate hedging. This is asset allocation in outline. In the portfolio structure, the risk budget is translated in terms of the actual ratio required between the matching and the return portfolio and within these, in terms of the different investment categories. Table 3 shows the actual and strategic allocation of the matching and the return portfolios and the underlying investment categories at year-end 2021. The higher weighting of the return portfolio is due partly to the dynamic policy, with steering for a higher risk budget, and partly to the good returns on shares, which led to an increase in the relative weighting of the portfolio.

Matching portfolio

The investment categories that together form the matching portfolio are euro government bonds (of the Netherlands and Germany), euro liquidities, euro corporate bonds and Dutch residential mortgages. Derivatives, euro interest swaps and interest futures are also deployed for the dynamic interest hedging policy.

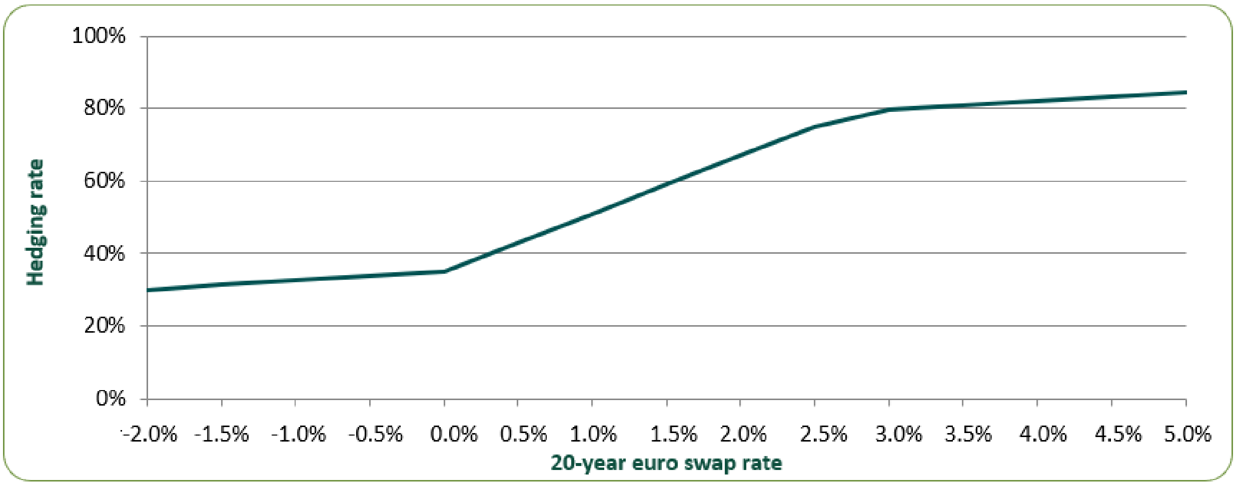
Return portfolio

The investment categories that together form the return portfolio are shares, real estate, infrastructure, private equity and alternative fixed-interest securities. Shares form by far the largest investment category. Within this investment category, there is a sub-division into developed and emerging markets. Investment within these developed and emerging markets is partly passive and partly on the basis of factors.

Interest rate hedging

The interest rate hedging policy was developed in order to match the interest risk that Pensioenfonds PGB runs as closely as possible to the ambitions and the risk profile of the pension fund. The interest hedging is dynamic, as this is linked to the amount of the 20-year euro swap rate (see Graph 2). The interest hedging policy is implemented via the matching portfolio.

Graph 2: *Interest rate hedging, depending on the level of the 20-year euro swap rate*



Share risk management

Dynamic share risk management (DAR) was developed in order to be able to partially protect pension capital against extreme reductions in share prices. Share index put options are purchased during certain market trends, on the condition that the purchase costs are acceptable and outweigh the risk. This temporary management measure provides protection against certain share price reductions.

Important features of DAR are:
- DAR concerns management of the share risk through purchases and sales of share index put options at certain times. The strategy does not provide protection against a fall in the funding ratio due to other risks.
- DAR has a dynamic policy: investments are made only in protection against falls in share prices by buying share index put options if the risk of share price falls rises, no recent extreme share price falls have occurred and the costs are acceptable. In order to save costs, Pensioenfonds PGB does not always buy protection against share price reductions. It is then possible that share prices will drop sharply and the strategy makes no contribution. This is the case in the event of sudden share price falls as a result of specific occurrences.
- DAR provides partial protection against share risks. The funding ratio will still fall sharply in the case of an extreme drop in share prices, but is expected to do so to a lesser extent.

The management measure does not have a continuous character. This would be too costly. It is therefore possible that no share index put options will be present in the Pensioenfonds PGB investment portfolio at the time of a significant fall in share prices. In 2021, market sentiment was positive, with no extreme valuations, and no put options were procured. The remaining put options from the preceding calendar year expired with a value of zero. DAR made a negative contribution in 2021 of 0.16 funding ratio points (2020: positive contribution of 0.5 funding ratio point).

Currency hedging

Part of the assets of Pensioenfonds PGB are invested in currencies other than the euro, the main foreign currencies being the US dollar, Sterling and the Japanese yen. The risk of this is that the value of a foreign currency will fall in relation to the euro, as a result of which the value of investments denominated in euros will fall. Pensioenfonds PGB hedges this risk partly via its currency policy. In 2021, deliberately not hedging the full currency risk contributed € 491 million.
The currency policy is dynamic for the US dollar, Sterling and the Japanese yen. Interest rate differences, spending power differences and market trends are taken into consideration in this context. On the basis of these indicators, the hedging of each of these currencies can range between 50% and 100%. The trend for the US dollar reversed in 2021, leading to a negative contribution of the dynamic currency policy of € 51 million in 2021.
All other currencies of developed countries are hedged (statically) for 75%. The currencies of emerging markets are not hedged.

Socially responsible investment

The Board aims to invest the pension assets of participants and pensioners in a socially responsible manner. A good return on the assets entrusted to us is naturally our most important objective. We want to realise a good pension for our participants. But our participants also want to be able to enjoy that in a social, clean and stable society.

Cause no damage

To us, therefore, SRI firstly means that we take the environment and climate, workers' rights and human rights and good governance into account in our investments. We follow the ten principles of the United Nations here. These '*Global Compact Principles'* were drawn up for companies all over the world, as a guide for doing business together responsibly.

A positive impact

However, in our view SRI goes beyond wanting simply to avoid causing damage to people and the environment. We believe that we can strengthen the corporate social responsibility of the companies in which we invest by opening talks with them, or by voting at meetings of shareholders. And, going a step further, we believe that as a pension fund, we can use opportunities to contribute towards a sustainable future for participants.

Towards a better world

How do we do this? In 2015, the United Nations drew up the *Sustainable Development Goals* (SDGs), which were signed by almost every country in the world. These SDGs are intended as a blueprint for working on a better world in 2030.

Many major investors have now embraced these goals, like Pensioenfonds PGB. One of the goals, for example, is to control climate change. With our choice of investments, we have an impact on the world around us. Although that impact is modest, it is our responsibility to use it positively.

The best result

We are convinced that sustainable investment will create the best result for our participants in the long term, because in that way we reduce risks. We therefore took our SRI policy to the next level in 2020, by explicitly opting for an *integrated* sustainability policy. This means that we will apply our sustainable investment criteria for all our investments.

Three pillars

Pensioenfonds PGB uses three pillars in this context: limitation, strengthening and usage. These provide a good summary of what we want to achieve with our SRI policy: to *limit* sustainability risks, to *strengthen* the social responsibility of the companies in which we invest and to *use* opportunities to contribute towards a sustainable future for our participants.

Instruments

Each pillar has its own instruments. In order to limit sustainability risks, for example, we apply an *exclusion policy* and a specific *climate policy*. To reinforce corporate social responsibility, we open talks with companies and/or cast votes at meetings of shareholders. In order to make use of opportunities, we want to increasingly consider the contribution of investments to the SDGs. After surveys of our participants, five of these have been designated as the most important by the Board (see below). These development goals are therefore priorities within the policy of Pensioenfonds PGB.

If you require more information on developments in socially responsible investment (SRI); we will publish a separate (digital) annual SRI report at pensioenfondspgb.nl/mvb in June 2022.

Other developments

Pensioenfonds PGB is also responsible for compliance with various legislation and regulations in the field of asset management. Three implementation processes are explained below, in outline.

Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation

With the entry into force of the SFDR on 10 March 2021, pension funds became subject to harmonised rules. Further development of the SFDR, in the form of further legislation and regulations, has yet to be finalised but this is expected to take place in the course of 2022. More transparency obligations are expected to enter into force on 1 January 2023 as a result of this further development. A multi-disciplinary project group is working within Pensioenfonds PGB on the timely implementation of the obligations pursuant to the SFDR and other applicable European legislation in the field of sustainable and responsible investment, including the Taxonomy Regulation. The Taxonomy Regulation contains a classification system (the taxonomy) that is intended to provide investors with clear and transparent information on the environmental sustainability of financial products, partly in order to counter greenwashing. In regard, the Taxonomy Regulation imposes strict requirements for the qualification of products as sustainable. The Taxonomy Regulation also supplements the SFDR on a number of points. The first part of the Taxonomy Regulation entered into force on 1 January 2022. The other part of the Taxonomy Regulation will enter into force in 2023. The pension fund closely monitors developments in the field of applicable legislation and regulations relating to sustainable investment.

Initial margin obligations pursuant to the EMIR Margin Rules

Certain risk-limiting rules, which will enter into force in phases, will apply for positions in financial instruments that are not settled within a clearing system. Examples include obligations for transaction reporting and the provision of collateral to hedge exposure (also referred to as the variation margin), which have already been implemented. From September 2022, Pensioenfonds PGB expects to become subject to a new set of rules that will oblige the pension fund and its counter-parties to exchange extra collateral (also referred to as the initial margin) to hedge the risk that Pensioenfonds PGB runs if the variation margin affords insufficient surety, for example as a result of market movements that change the exposure. The obligation to exchange the initial margin applies only if it exceeds a particular limit value. Pensioenfonds PGB has made preparations in order to address the consequences of these obligations. Pensioenfonds PGB also closely monitors developments in this field.

Benchmark Regulation (BMR)

In response to the LIBOR scandal, conversions of Interbank Offered Rates (IBOR) into alternative reference rates are taking place world-wide. The legal grounds for this LIBOR transition are provided by the European Benchmark Regulation (BMR), which entered into force on 1 January 2018, with a transition period until 31 December 2021. Under the BMR, the Euribor and Eonia have been phased out, partly because the rates are not based on actual transactions. Eonia (which disappeared entirely on 3 January 2022) has been replaced by the euro short-term rate (€STR) and the calculation method underlying Euribor will be adjusted. Pensioenfonds PGB has commissioned a qualitative analysis of the impact of the BMR on the Pensioenfonds PGB portfolio and has taken measures on that basis. Developments in this field are also closely monitored.

Financial Statements

Balance Sheet as at 31 December 2021

(after appropriation of net income and expenditure)

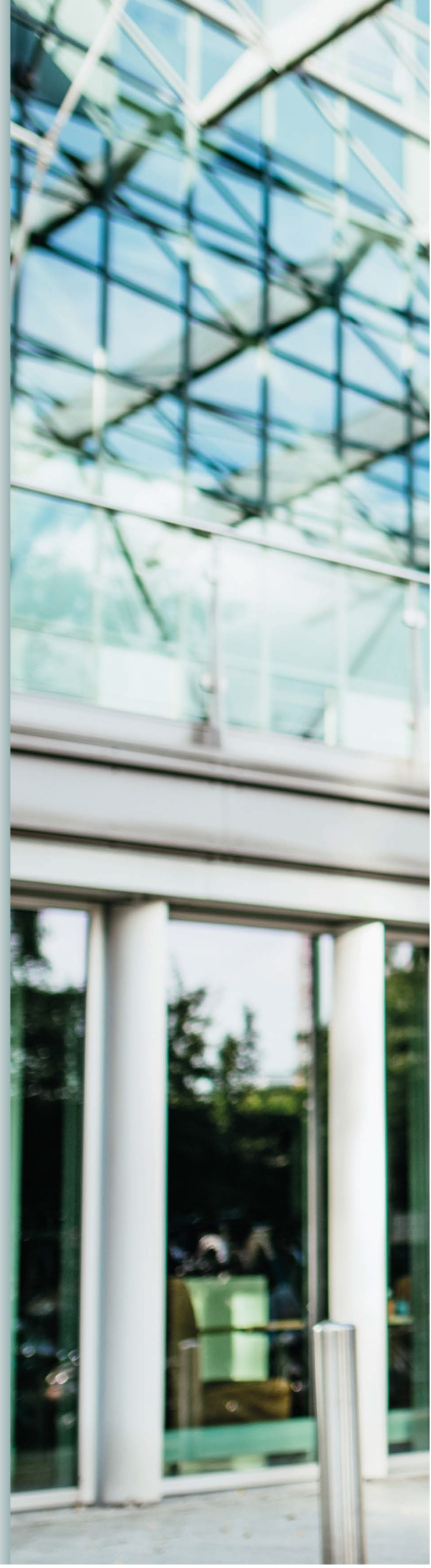
Amounts in millions of euros

	31 December 2021		31 December 2020	
ASSETS				
Real estate and infrastructure	2,318		1,683	
Equity	18,568		12,784	
Fixed-interest securities	15,794		16,894	
Derivatives	817		871	
Investments for the risk of the pension fund		37,497		32,232
Real estate and infrastructure	22		16	
Equity	179		123	
Fixed-interest securities	109		88	
Derivatives	5		5	
Investments for the risk of the participants		315		232
Technical provision for reinsurance component		8		5
Participating interests		3		6
Property, plant and equipment		25		25
Receivables, prepayments and accrued income		414		159
Other assets		55		74
Total assets		**38,317**		**32,733**
LIABILITIES				
Foundation capital and reserves		5,380		802
Technical provision for pension fund risk		31,621		30,985
Technical provision for participants' risk		312		229
Other debts and deferred income		1,004		717
Total Liabilities		**38,317**		**32,733**
Current UFR funding ratio		116.8%		102.6%
Policy funding ratio		111.5%		96.3%

Statement of income and expenditure for 2021

Amounts in millions of euros

		2021		2020
INCOME				
Premium contributions for pension fund's risk		852		775
Premium contributions for participants' risk		71		39
Investment results for pension fund's risk		2,162		1,990
Investment results for participants' risk		23		18
Total income		**3,108**		**2,822**
EXPENDITURE				
Pension payments		766		719
Pension administration costs		36		33
Movements in technical provisions for risk of the pension fund				
Pension accrual	1,089		893	
Interest added	-181		-93	
Withdrawals for pension payments and administration costs	-782		-733	
Change in market interest rates	-2,233		3,486	
Amendment of actuarial principles	-		-843	
Amendment based on transfer of rights	2,761		-2	
Other amendments of technical provisions	-18		48	
		636		2,756
Movements in technical provisions for risk of participants		83		44
Net reinsurance		2		1
Net transfer of rights		-3,006		2
Other expenses		13		1
Total expenses		**-1,470**		**3,556**
Net income and expenses		**4,578**		**-734**
Appropriation of net income and expenses				
Movements in statutory reserve		4,578		-734



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