

pensioenfonds



ANNUAL REPORT 2023



STICHTING PENSIOENFONDS PGB
2023 ANNUAL REPORT

71st FINANCIAL YEAR

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The English version of the Annual Report 2023 of Stichting Pensioenfonds PGB is a translation of the original Dutch version. In case of doubt or differences of interpretation, the Dutch version shall prevail over the English language version.



A brief overview

Preface

A lot will be happening in the coming years. The pension sector is working hard on the largest update of our pension system ever. Not only did this require a lot of attention from us last year, we will continue to be a sector in change in the years to come. We consciously make time and space for this; we must fulfil our promises to participants, employers and social partners and continue to build for the future.

At the same time, there are unexpected events in the world around us that we need to respond to. There was (and still is) war in Ukraine. In the autumn of 2023, the escalating conflict in the Middle East was added. There is currently no end in sight for this conflict either. Closer to home, in our own country, 2023 was a tough year: many people noticed on a daily basis that life was becoming more expensive. There was also a change in terms of politics: the government fell in the summer, resulting in elections. No one yet knows for sure what the new government will look like in 2024. The formation is still in full swing at the start of 2024. These events of last year, together with previous years, show that as a pension fund we must remain agile in order to be able to respond quickly to changing circumstances. We also pay a lot of attention to that.

Looking at last year, I'm pleased that our financial position has continued to improve, despite the uncertainty mentioned above, and the effects that many of our participants felt, our financial position has continued to improve. This allowed us in 2023 to increase pensions for the second time. And again on 1 January 2024. The total increase over the past two years therefore amounted to 15.2 percent. We were also able to keep the pension premium the same. In times of high inflation, this was good news for participants and employers.

Furthermore, clarity regarding the new pension was provided in 2023: the new pension law was passed by the Senate and is therefore final. We expect to transition to this new system on 1 January 2027. In order to involve our social partners and employers in a timely manner, we entered into frequent dialogues with them. We have also developed a new digital platform especially for them. In addition, we continued and will continue to offer guidance to our participants. The fact that this has been a success is evident from the *Gouden Oor Erkenning* we received. We are happy about that. But we remain alert to all opportunities to raise our services to a higher level.

We welcomed a new member to the board: Anne Kock. She focuses on balance sheet management and socially responsible investing, and is also the new chair of the Balance Sheet Management Committee. You can meet her later in this annual report.

If you would like to know more about the above and all other events that happened in the past year, please read our annual report. We have done our best to make it even more accessible and readable. Please let me know if we've been successful.

Amstelveen, April 2024

Jochem Dijckmeester
Chairman of the Board of Pensioenfonds PGB



Our profile



MISSION

Pensioenfonds PGB offers security for the future

We do this by administering our pension schemes in a future-proof manner, taking into account the interests of all stakeholders, and aiming for optimal added value for the premiums contributed. In this way, we ensure that our participants have an additional income in their old age, even if they become disabled. Today, tomorrow and far into the future. And that their surviving dependants are insured against the consequences of death. Our ambition is to provide affordable, modern pensions that allow participants to maintain their spending power in the long term as much as possible.

Pensioenfonds PGB is more than just alone

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 into a reliable shelter in which many sectors, employers and participants can feel at home, both now and in the future.



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 find openness important. As we do offering insight into pensions and sharing expertise.



STRATEGY

The new pension system

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 conduct and continue to 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 seize the opportunities to cut costs, reduce complexity and increase confidence.

The new pension chain

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

A customer-centric organisation

In everything we do, we put our customers centre stage, i.e. participants, employers, and social partners. Extensive analysis of the various customer groups (customer segmentation) has given us better insight into their needs. Even after the switch to the new pension system, we want to distinguish ourselves more in terms of customer focus. We are accelerating the implementation of existing and new initiatives to boost customer satisfaction.



FOCUS POINTS FOR 2024-2028

In the second half of 2023, the board assessed whether a recalibration of the strategic themes for the years 2024-2028 was necessary. The board saw no reason to completely revise the strategy, but will continue on the chosen path and focus on the following themes for the coming years:

A successful transition to and introduction of the new pension system

In the coming years, we will make the transition to the new pension system together with our participants, employers and social partners. We proactively support them during the transition.

Distinctive service

We organise our services to participants and employers differently, in line with our role as a committed, enterprising and unique pension fund. We listen to customer signals and always look for improvement. We provide guidance and are committed, relevant and proactive. We organise our processes, both digitally and non-digitally, as clearly, simply and personally as possible.

Ready for the future

In the coming years, we will focus on successfully completing the complex transition to the new pension system while maintaining the current connections. We do it together, and for all of us. This development offers us the opportunity to show our own identity even more clearly, in line with who we are as a multi-sectoral pension fund. It provides visibility and a clear, recognisable brand. We are there for entrepreneurial Netherlands and are open to further growth.

A brief overview of 2023

Number of participants year-end 2023



128,986

participants
who accrue
pension benefits



99,917

participants
who receive
pension benefits



213,156

participants who
accrued pension
benefits in the past

Employers year-end 2023



4,049

UFR coverage ratio year-end 2023



112.5%

Policy coverage ratio year-end 2023



116.5%

Pension increase in 2023



7.0%

Invested assets year-end 2023



€ 32.0
billion

Return on investment for 2023



11.7%

Key figures for 2019-2023

At year-end and for the years 2019 to 2023

Note: all amounts in the key figures are in euros and rounded to the nearest million, except for the pension administration costs per participant, which are rounded to the nearest euro. Percentages are calculated based on non-rounded figures.

	2023	2022	2021	2020	2019
Number of employers					
Affiliated employers	4,049	4,040	4,004	2,594	2,577
Number of participants					
Premium-paying participants	123,079	123,062	119,740	89,139	82,110
Participants with pension entitlement on account of occupational disability	5,907	5,623	5,305	4,390	4,262
Non-contributory participants ¹	213,156	218,228	217,105	163,123	157,167
Total	342,142	346,913	342,150	256,652	243,539
Number of pensions					
Retirement participants in payment	72,231	70,141	67,792	58,242	56,511
Partner's participants in payment	26,728	26,269	25,481	22,669	22,314
Orphan's participants in payment	958	849	851	749	802
Total	99,917	97,259	94,124	81,660	79,627
Pension administration					
Premium contributions	1,032	985	923	814	701
Benefits	900	825	766	719	694
Pension administration costs	48	44	36	33	31
Regular pension management costs per participant	210	195	166	187	188
Investments					
Investments at the pension fund's risk including negative derivatives	31,580	28,537	36,568	32,196	29,989
Investments at participants' risk including negative derivatives	420	288	311	232	187
Total value of the investment portfolio including negative derivatives	32,000	28,825	36,879	32,428	30,176
Investment income from total portfolio	3,131	-9,274	2,185	2,008	4,105
Total return on investment as a %	11.7	-25.3	6.2	6.8	16.0
Performance compared to the benchmark (Z score)	0.44	0.65	0.75	-0.69	-0.14
Performance test	0.45	0.13	0.07	0.18	0.58
Asset management costs as a % of average invested assets	0.46	0.53	0.43	0.41	0.43
Changes in equity and solvency					
Technical provisions at the pension fund's risk	28,120	25,253	31,621	30,985	28,229
Technical provisions at participants' risk	464	328	312	229	185
Equity	3,588	3,393	5,380	802	1,536
Pension assets held	32,172	28,974	37,313	32,016	29,950
Minimum capital requirement	1,195	1,073	1,349	1,289	1,182
Capital requirement based on strategic investment portfolio	34,248	30,786	38,002	36,691	34,049
Distributable reserve (+) reserve shortfall (-) based on strategic investment portfolio	-2,076	-1,812	-689	-4,675	-4,099
Average notional interest rate as a %	2.32	2.58	0.56	0.16	0.71
UFR funding ratio as a %	112.5	113.2	116.8	102.6	105.4
Policy funding ratio as a %	116.5	118.7	111.5	96.3	103.3
Realistic coverage ratio as a %	86.9	90.7	89.7	79.4	83.7
Capital requirement as a % based on actual investment portfolio	120.9	115.8	123.4	116.5	121.0
Capital requirement as a % based on strategic investment portfolio	121.4	121.6	120.0	118.3	120.5
Increase in pensions in payment and pension entitlements as of 1 January as a %					
Pension increase ²	7.0	3.0	-	-	-

¹ Pension beneficiaries who are not yet drawing their pension are counted as part of the non-contributory participants.

² As of 1 January 2024, pensions in payment and pension entitlements have been increased by 5.2 percent.

2023 in general

The new pension

On 1 July 2023, the Future Pensions Act (Wtp) came into effect. This will change the way in which Dutch people accrue pension. The core is the mandatory switch to one of the two new types of premium agreements: the solidary contribution scheme and the flexible contribution scheme. Pensioenfond's PGB currently offers a lot of customisation, which has led to us implementing hundreds of different schemes. Although we want to continue to offer flexibility, the new law also offers the opportunity to say goodbye to the many exceptions that have arisen in recent years. In 2023 we worked hard on designing a new product offering. This product offering was then presented to all sectors and employers. We also introduced a digital Wtp platform especially for them, which provides guidance when making choices. They must communicate their final choices to us in a transition plan in 2024; this can also be done via this platform.

We informed our participants about the transition last year, so they too are and remain informed in a timely manner of all changes and the steps we take in this regard. From 1 January 2028, all pension funds must have switched to the new system. Pensioenfond's PGB aims to make the transition to the new pension on 1 January 2027.

Pension chain overhaul

In order to ensure optimised and cost-efficient implementation of the new pension system, we and our administrator are working on a new pension chain. This also includes implementation of a new pension administration system. The aim is to add value for our customers through greater ease of use, financial insight and online services. The new chain should also lead to more efficient pension administration, including by offering more online self-service options. The processes and the organisation are now being prepared for the transition to this new pension administration system. We aim to implement our existing products and schemes within the new system during 2024.

Pension increases

In 2022, we increased pensions by 3.0 percent. Because our financial situation was good enough, we were able to increase the pensions again as of 1 January 2023, this time by 7 percent. The increase applied to everyone who received a pension from us on 31 December 2022, accrued a pension with us or still had one with us. At the end of December, the Board decided to adjust the fixed increase benchmark that had been effective since 2015. According to that benchmark, we could increase pensions by a maximum of 3 percent. The Board felt this was no longer a balanced approach and decided to switch to Statistics Netherlands' consumer price index that does not take government measures into account. Persistently high inflation and the upcoming new pension system were key reasons behind this decision. This will allow us to better compensate for large price increases, such as in 2022. When the board took this decision, we balanced the interests of all participants of Pensioenfond's PGB. An increase should benefit everyone who accrues or receives a pension with us, young and old, now and in the future. That is why we carefully looked at all those different interests. At the end of 2023, the decision was made to increase all pensions by 5.2 percent from 1 January 2024. This increase has been included in the coverage ratio at the end of November 2023.

Socially responsible investing

In 2023, we will have reformulated our investment philosophy and risk appetite for socially responsible investing. Briefly said, our main duty is to ensure a good pension in a liveable world. That is why socially responsible investing is necessary. Sustainability is no longer an afterthought for us, but an inseparable part: in all our investments we make an integral assessment between return on investment, risk, costs and sustainability. At the same time, we realise our influence as a pension fund is limited. So we work together with other pension funds and we focus on the sustainable goals we pursue. In 2023, we conducted a survey among participants to find out which topics they find really important. On this basis, the Board established three focus themes for the future: climate, biodiversity and sustainable nutrition. The survey showed that a large majority (70 percent) considers socially responsible investing very important. Only a small minority (5 percent) considers results more important, and 25 percent is neutral. In 2023, we also published our climate plan. We are now on track for our goal: halving the CO₂ footprint of our investment portfolio by the end of 2030.

In 2023 we also decided that from now on, we will include the most important negative effects in communications about our investment policy (Article 4 of the SFDR). This is because we want to be even more transparent about our sustainable goals and the measurable results.

A customer-centric organisation

Pensioenfonds PGB wants to distinguish itself on customer centricity. Customer satisfaction levels among our participants, social partners, and employers are crucial in that respect. Last year, we took important steps in this regard. For instance, through the development of our customer feedback policy. In concrete terms, this means we involve our participants, social partners and employers in the decisions we make. By focusing more on listening to what they say, we implement customer-centric development. For instance, in 2023 we introduced a feedback platform, enabling us to ask participants and employers about their experience with us. We analyse and process both positive and negative customer feedback. We check whether our offering and communications are still aligned with our stakeholders' needs and preferences. This enables us to be the customer-centric and continuously improving organisation we want to be. We had independent research conducted on how well we listen to customers and received a *Gouden Oor Erkenning* for this in 2023.

We are increasingly focusing on digital services to reach our customers faster and provide them with better guidance. In this context, we believe that digital is not the opposite of personal. In all digital developments, we put personalised information, accessibility, and personal contact first.

Outlook

Together with our participants, employers and social partners, we will be moving towards a new pension system in the next few years. It is an intensive period for everyone involved. For us it is the time to deliver and continue to build. We are ready for the challenges ahead. We will continue to offer our participants, employers and social partners guidance in the coming years. Three of our Board members will explain how we will guide employers and social partners, our investments and services.



Towards a new pension scheme together

Hans Kamps: "Pensioenfond PGB is expected to make the switch to the new pension on 1 January 2027. For us, this transition has been successful if we've been able to reassure all our affiliated employers and their employees. They should feel that they have received sufficient relevant information from us, enabling them to make well-considered pension choices. We offer an adequate product range at the most efficient price, combined with an attractive service. For a multi-sectoral fund like ours, this transition is a major task. In 2023, we invested a lot of time in good contacts with our supporters. We developed a Wtp platform for sector committees and employers that allows them to see for themselves how their choices for the various pension schemes affect them. We will continue to build this platform in the near future. And we look ahead to the period after the transition to the new pension system. It's clear to me that this period will be characterised by further consolidation. But I'm also convinced that Pensioenfond PGB is a natural partner that offers added value, is cost-conscious and advocates an efficient working method.



Our investments

Anne Kock: "2024 is the starting point for future-proofing our investment portfolio. The Board looks at various factors. For instance, the results of the risk preference survey of our participants. These help determine the structure of our investment portfolio. In addition, we must also consider: what fits the period en route to the new pension? And what does that mean for PGB as a long-term investor and our investment portfolio? In the new pension system, their pension statements will instantly show people the pluses and minuses. The question is what our participants think of that. We must respond to this with correct information and insights. The number of buffers we need to maintain will probably be lower. And we can take a little more risk for young people. You have to explain all that well. In the near future, we will therefore segment our investments more by age. The most important thing is that collectivity and solidarity remain very important in our fund. Together we can achieve more than the sum of the parts. Together we can have a sustainable impact. And get results.'



Distinctive service

Tim van Dijk: 'Pensions are quite complicated for many people. And a lot is going to change in the coming years. To provide guidance, we want to guide social partners, employers, participants and pensioners through their pension journey. And that starts with listening carefully to our participants and employers so we understand their needs and adapt our services accordingly. Only then will you become the customer-centric organisation we want to be. That we are on the right track is evident from the Golden Ear Recognition we received (see also the 'Pension Management' chapter). This demonstrates that we consistently handle customer feedback in a satisfactory manner. But also that we actively ask for feedback and use customer signals to improve our services. We want people to have and maintain confidence in pensions in general, and in our pension fund in particular. This also means communicating transparently about the choices we make in order to continue to ensure support. That's why I like our brand promise so much: 'for all of us'. Because we make sure we get it done. And we do it for all of us. That's not an empty promise: solidarity is the basis of a pension and of Pensioenfond PGB. With this people-oriented customer approach, we want to continue to distinguish ourselves as a committed and unique pension fund.'



Pensioenfonds PGB in 2023

Pension management

The Future of Pensions Act came into effect on 1 July 2023 and the transition to the new pension must be completed by 1 January 2028 at the latest. Pensioenfond's PGB aims to convert all pensions into the new rules one year earlier (1 January 2027). We finalised our product offering in 2023 and presented it to social partners from mandatory sectors, voluntarily affiliated employers, and their advisors. We did this through digital newsletters, webinars and on-site presentations. Afterwards, all affiliated employers and sectors received the video of the webinar and a brochure with the new pension schemes of Pensioenfond's PGB. It also contains all the choices they have to make.

In 2023, we also started developing a platform where sectors and employers can see the effects of the different choices they can make (customer-specific transition effects). Here, they can also digitally complete their transition plan and send it to us. We created a road map, signpost and calculation tools to help them make those choices and draw up a transition plan. In the first quarter of 2024, we will also roll out this platform for our voluntarily affiliated employers. We ask social partners and voluntarily affiliated employers to submit a transition plan before 1 December 2024, giving Pensioenfond's PGB enough time to check the plans and accept the task before 1 January 2025. At the end of 2023, we sent our first newsletter to employers to inform them about developments surrounding the new pension. We will continue to do this every month. For current information about the new pension, both participants and employers can always visit their own theme page on our website. We also informed them periodically through news items on our website, the digital newsletter and our pension magazine *PGB Beeld*.

Balance sheet and asset management

The financial markets and investment results in 2023

Pensioenfonds PGB invests pension assets to make them grow compared to the obligations. This is how we ensure the best possible pension for our participants. Pension obligations rose 6.7 percent due to lower 'long-term' interest rates. In 2023, Pensioenfonds PGB decided to increase pensions by 5.2 percent from 1 January 2024. These two effects together led to an increase in pension obligations from 25.6 to 28.6 billion euros at the end of 2023. The investments returned 11.7 percent in 2023 (2022: -25.3 percent). Invested assets increased from 28.8 to 32.0 billion euros.

The impact of the Ukraine crisis on the financial markets decreased in 2023 compared to 2022. This resulted in energy prices falling and inflation declining slightly. However, inflation was still high, especially at the beginning of 2023, higher than the central banks' target. This prompted central banks to increase short-term interest rates (the interest you pay on loans with short terms) to slow the economy and reduce inflation to acceptable levels. On the financial markets, the tightened money supply led to recession estimates, which actually translated into lower long-term interest rates (the interest you pay on loans with long terms) at the end of 2023. The pension obligations are particularly sensitive to long-term interest rates, because the majority of the obligations are long term. See diagram 1 for the interest curve at the end of 2022 and at the end of 2023.

Diagram 1: Interest curve (interest rate per term) Netherlands as at 30 December 2022 and 29 December 2023

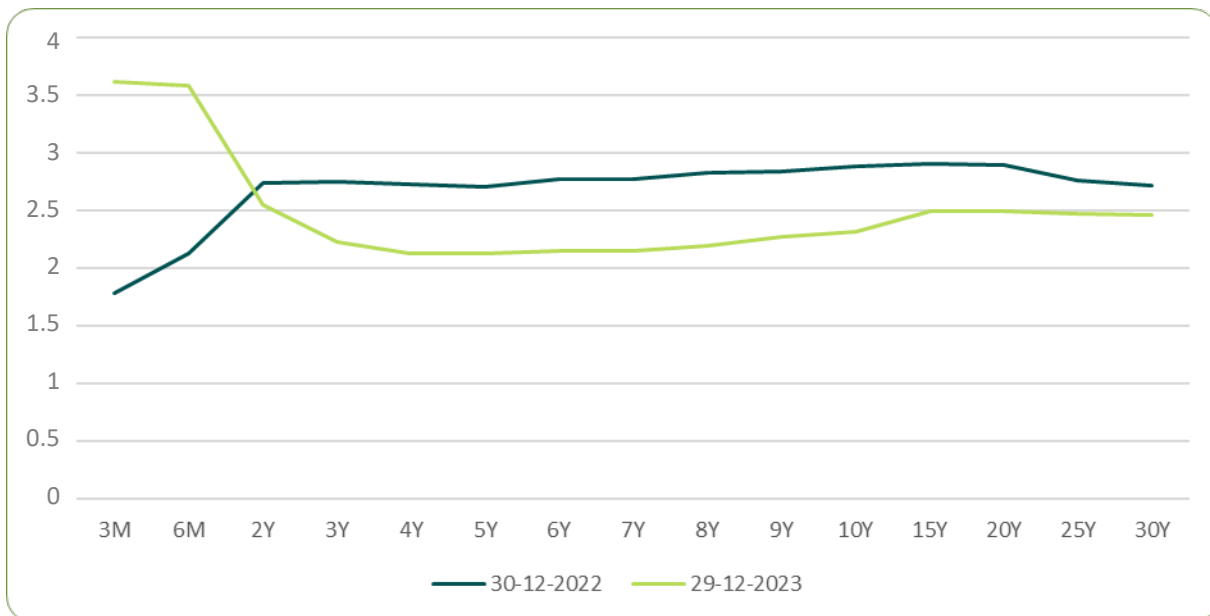


Table 1: Return on investment

	Return on investment	
	Pensioenfonds PGB	Benchmark
	%	%
Total return on investment	11.7	15.5
Matching portfolio³	12.8	13.2
Euro government bonds	7.2	-
Euro corporate bonds	6.7	-
Mortgages	3.9	-
Return portfolio	10.5	16.7
Equities	15.5	18.8
Alternative real assets*	-1.8	14.6
Alternative fixed-income securities**	8.8	9.3
*Alternative real assets	-1.8	14.6
Property	-11.5	13.5
Infrastructure	6.1	14.4
Private equity	5.4	21.2
**Alternative fixed-income securities	8.8	9.3
Corporate bonds from emerging markets	2.2	2.7
Bank loans	10.5	10.8
High-yield bonds	8.3	8.0
Direct loans	6.4	12.5

Matching portfolio

The matching portfolio contains fixed-income investments that are used to partly absorb the high interest rate sensitivity of the pension obligations: to match them. The interest rate hedge was quite stable during the year and ranged between 65 and 70 percent of the obligations.

After a year with relatively large interest rate movements, 2023 ended with slightly lower interest rates for long terms. As a result, return on the matching portfolio was positive for 2023, coming in at 12.8 percent. The development of the interest curve had a positive result on the matching portfolio.

The scope of the matching portfolio varied between 35 and 40 percent of the total investment assets. This was not sufficient to achieve the intended rate hedge (between 65 and 70 percent of the obligations in the past year). Therefore, the matching portfolio uses not only euro government bonds, euro corporate bonds, and mortgages, but also interest rate derivatives. In accordance with the matching policy of Pensioenfonds PGB, interest rate derivatives are used to increase the interest rate sensitivity of the investments. The aim is to better align the investments with the pension obligations.

The return on investment of the benchmark, the pension obligations (calculated back to the scope of the matching portfolio), was 13.2 percent. The difference in return on investment between the matching portfolio and the pension obligations is largely due to the interpretation of the investments along the interest curve. In addition, due to the sharply rising ECB interest rates for short terms, the costs of the variable side of interest rate swaps rose above the interest payment on the fixed, long-term side of the interest rate swaps. This had a negative effect on the return on investment of the matching portfolio.

³ This total sum is influenced by the returns on interest rate swaps and interest rate futures that are not recognised separately in the return figures shown here, given that these do not have a relevant market value. As a result, the total return for 2023 is higher than would be expected based on the underlying figures presented.

Return portfolio

The return portfolio contains investments in real assets and in higher-risk fixed-income securities. Equities rose a total of 15.5 percent. With alternative fixed-income securities (8.8 percent) and alternative real assets (-1.8 percent), the return on investment of the return portfolio totalled 10.5 percent. Property showed a negative return on investment, which also led to the negative return on alternative real assets. Apart from property, the return portfolio showed positive returns across the board.

Breakthroughs in artificial intelligence (AI), such as ChatGPT, resulted in strong increases for the magnificent seven, the seven largest technology companies in the world. Most equities could not follow this strong increase, but overall it led to positive returns on investment for equities. Our portfolio return lagged behind the benchmark due to the underweighting of the aforementioned magnificent seven and due to lagging results from factor investing.

After two very good years for alternative real assets investments (particularly infrastructure), this category of investments showed a lower result in 2023. Infrastructure and private equity recorded positive returns on investment. Although property recorded a negative total return on investment due to lower property valuations, the direct return on investment remained positive. We benchmark alternative real assets against listed equities. This can lead to major differences in individual calendar years. This is partly the result of the delay with which developments on the stock exchange translate into the valuations of (illiquid) alternative real assets. After showing positive results compared to the benchmark in 2022, the return portfolio lagged behind in 2023.

Performance compared to the benchmark (Z-score): positive for 2023, topping the required minimum over five years

Like all other industry pension funds, Pensioenfonds PGB is required by law to calculate the so-called Z score, which reflects the fund's performance compared to the benchmark. The Z-score for 2023 came in at 0.44 (2022: 0.65). The performance test result for the 2019-2023 period is 0.45 (2022: 0.13), which puts performance above the required minimum of -1.28.

In general, we use the same benchmarks to calculate the Z-score as those for the investment plan. If no suitable investable benchmarks for investment categories exist, Pensioenfonds PGB uses 'interest + 1%' as a benchmark, in accordance with the guidelines. This applies to illiquid investments, for instance. In some cases, no representative investable benchmark can be defined at all; in that case, the portfolio return is set equal to the benchmark return. As in 2023, this may lead to a Z-score that is not always in line with the portfolio and benchmark returns shown.

The decree on exemption from compulsory affiliation to an industry pension fund [*Vrijstellingsbesluit Wet Bpf 2000*] offers companies the possibility to opt out of affiliation with an industry pension fund when, for example, the performance test performed over a period of five calendar years shows that the actual return on investment achieved by the pension fund is considerably lower than the return on the standard portfolio set by the pension fund. Return is deemed considerably lower when the outcome of the performance test calculation is lower than the required minimum of -1.28. This is not the case for Pensioenfonds PGB.

Investment policy for 2023

The pension fund's philosophy will be evaluated and redetermined in 2023. In 2023, participants were asked to indicate their risk preferences so that a new risk preference can be established. The results will be available in 2024 and a policy evaluation will be based on this for the various investment choices.

The objective of Pensioenfonds PGB is to sustainably maintain purchasing power for its participants and to limit the risk of large reductions (having to reduce pensions). To achieve this objective we must take investment risk. The investment philosophy is the basic principle on which investment risks are taken.

The investment philosophy of Pensioenfonds PGB is:

1. Participant central: the participant is always central to our investments. Pensioenfonds PGB is transparent about its investments and investment policy.
2. Risk and ambition: we are convinced that taking risks is necessary to achieve (net) returns on investment and thus achieve the ambitions of our stakeholders.
3. Collectively: we can invest, have access to many investment solutions and can apply diversification because together, we are one pension fund. Diversification reduces risk.
4. Long term: we are a long-term investor, with a stable long-term investment policy. This means we can also use the illiquidity premium.
5. Sustainability: we believe that sustainability is necessary to ensure that our participants can enjoy a good pension in a liveable world.
6. Adaptive capacity: we are convinced that adaptive capacity is important and adds value in a continuously changing world.
7. Passive or active investing: it's hard to beat markets. If we chose active investing, there must be a good reason for it. This may, among other things, be due to the lower efficiency of a market, the improved relationship between return on investment, risk, costs and sustainability or the impossibility of passively incorporating a desired category. Sustainability reasons can also lead to an active benchmark, which is then followed passively.

The consequences of the new investment philosophy and the Future of Pensions Act on the strategic investment policy of Pensioenfonds PGB will be examined in 2024. We do this on the basis of the evaluation of our investment policy and the investment portfolio.

Investment policy: takes the coverage ratio into account

Pensioenfonds PGB's investment policy is based on the risk appetite of participants and our ambitions to maintain spending power at the same level as much as possible, i.e. indexation (increase) of the pensions.

Weighing up the likelihood of indexation and the risk of pension cuts is a dynamic balancing act:

- With high coverage ratios, full pension indexation is possible and the risk appetite is lower.
- With low coverage ratios, the aim is to limit (major) pension cuts by taking less risk.
- In between these two extremes is where we can take the greatest risk to increase the likelihood of pension indexation.

Risk budget

The degree of risk-taking, i.e. the risk budget, moves in step with the nominal coverage ratio based on market value and is recorded in the policy matrix. It is the sum of mainly equity, interest rate, currency, and credit risk, and it is captured in the form of a percentage of the minimum capital requirement (VEV in Dutch). This percentage is based on a model that uses *De Nederlandsche Bank (DNB)* minimum capital requirement method.

Diagram 2: Risk budget with nominal coverage ratios

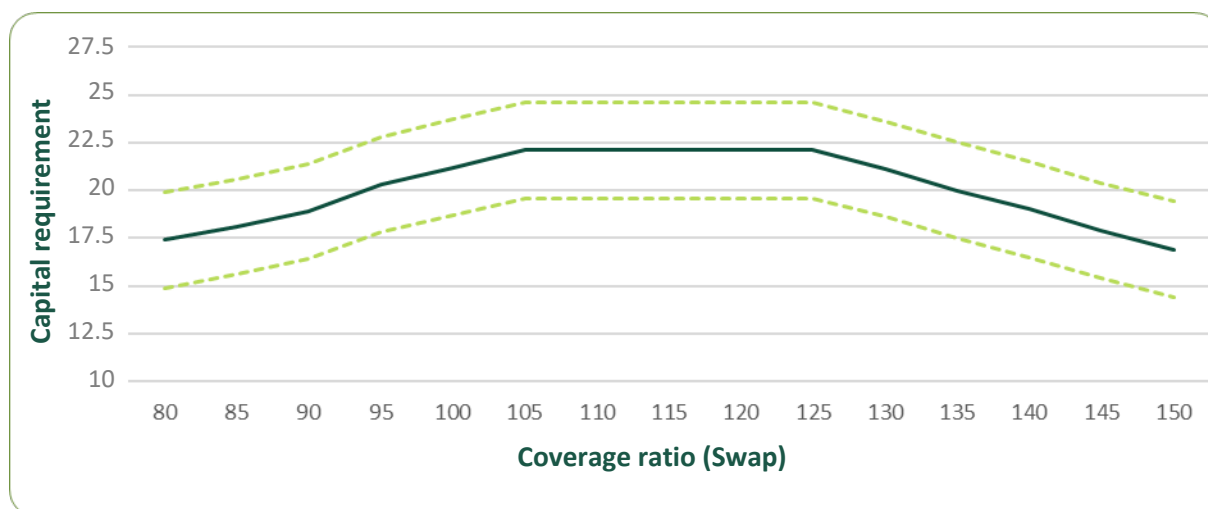
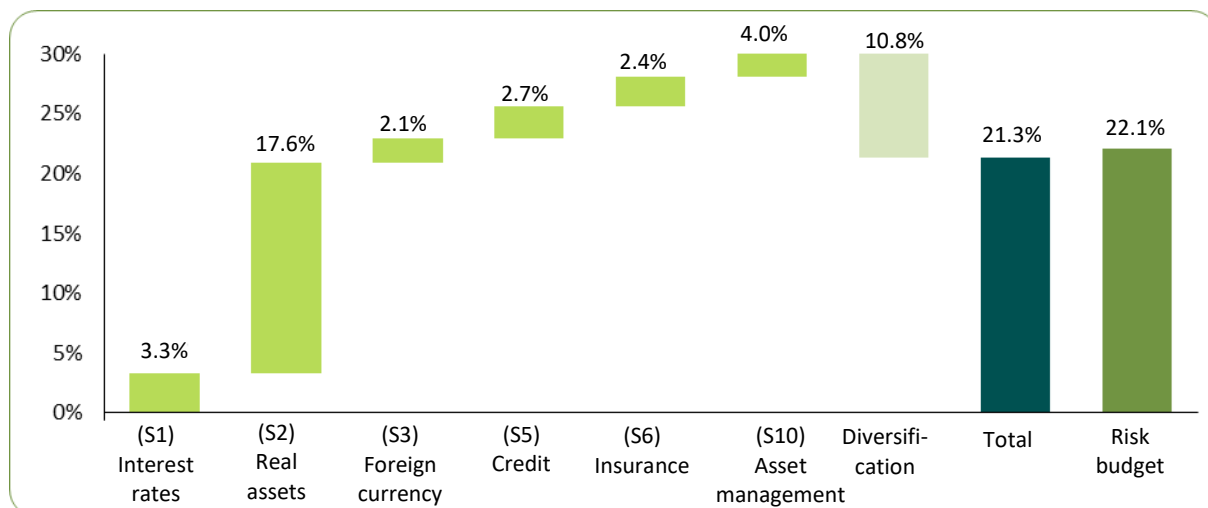


Diagram 3: Risk taken



Portfolio construction: matching and return portfolio

In an asset liability management study, the focus is primarily on the policy matrix and interest rate hedging. This is the outline of the investment portfolio. In portfolio construction, the risk budget is translated to the actually targeted proportion of the matching to the return portfolio, and within that to the various investment categories. Table 2 shows the actual and strategic spread of the matching and return portfolio and the underlying investment categories as at the end of 2023.

Matching portfolio

The matching portfolio is made up of the following investment categories: German and Dutch euro government bonds, euro liquid assets, euro corporate bonds, and Dutch home mortgages. Additionally, derivatives, euro interest rate swaps, and interest rate futures are used for the interest rate hedging policy.

Return portfolio

The return portfolio is made up of the following investment categories: shares, property, infrastructure, private equity, and alternative fixed-income securities. Equities are by far the largest investment category. The shares investment category is subdivided into developing and emerging markets. Within these developed and emerging markets, two investment strategies are used, namely passive investing and factor investing.

Table 2: Investment portfolio

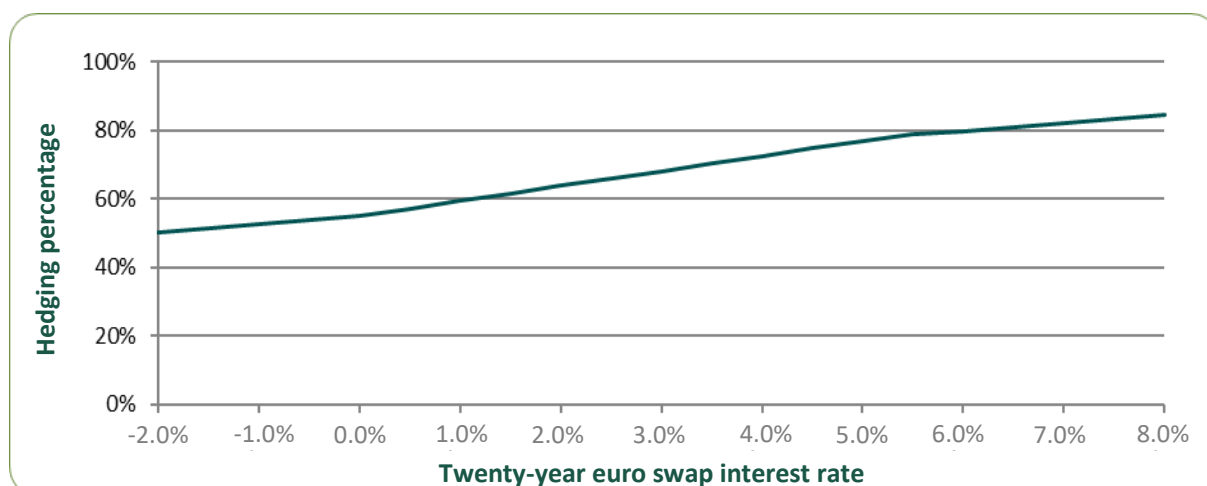
	Actual portfolio 31 December 2023	Strategic portfolio 31 December 2023
	%	%
Matching portfolio	39.6	39.3
Euro government bonds	21.7	16.8
Euro corporate bonds	13.3	18.1
Mortgages	4.6	4.4
Return portfolio	60.4	60.7
Equities	43.8	45.0
Alternative real assets*	6.6	6.4
Alternative fixed-income securities**	9.5	9.3
Foreign currency hedge	0.5	-
*Alternative real assets	6.6	6.4
Property	2.5	2.5
Infrastructure	2.9	2.9
Private equity	1.2	1.0
**Alternative fixed-income securities	9.5	9.3
Corporate bonds from emerging markets	1.8	1.8
Bank loans	5.4	5.2
High-yield bonds	1.6	1.6
Direct loans	0.7	0.7
Interest rate hedge rate	70.9	71.0
Foreign currency hedge rate	78.1	77.0

Interest rate hedging

The interest rate hedging policy was developed in order to best align the interest rate risk to which Pensioenfond PGB is exposed with the fund's ambition and risk profile. Rate hedging is linked to the level of the twenty-year euro swap interest rate (see diagram 4). The interest rate hedging policy is implemented through the matching portfolio.

The sharp interest rate rise of early 2022 meant that interest rate hedges were also scaled up significantly over that period to offer more protection against interest rate drops. Interest rates with longer terms fell in 2023, meaning that the increased protection against interest rate drops made a positive contribution to returns on investment.

Diagram 4: Interest rate hedge as at 1 January 2023, depending on the twenty-year euro swap interest rate



Share risk control

In order to be able to partly protect the pension capital against extreme share price drops, Pensioenfond PGB uses share risk control. In response to certain trends in the market, share index put options are bought, on the condition that the purchase costs are acceptable and compensate the risk. This temporary control measure offers protection against certain share price drops.

The control measure is not of a continuous nature, as that would be too costly. It may be, therefore, that no share index put options are held in Pensioenfond PGB's investment portfolio when share prices drop significantly. In 2022, market sentiment was negative and protection was purchased. In 2023, equities rose and protection was reduced.

Foreign currency hedge

Part of Pensioenfond PGB's capital is invested in currencies other than the euro, mainly in US dollar, pound sterling, and Japanese yen. The risk of investing in foreign currencies is that their value decreases against the euro, reducing the value of investments measures in euros. Pensioenfond PGB partly hedges this risk through its foreign currency policy.

Socially responsible investing

The framework of our socially responsible investing policy

The socially responsible investment policy is an integral part of the investment policy.

As with other policy topics, we follow a formal process. That process consists of four steps: policy-making, implementation, monitoring and accountability and, lastly, evaluation and review.



Every step poses risks that we can accept, limit or avoid. Identifying, assessing and managing risks falls under risk management.

In addition, there is the influence of legislation and the covenants to which we have committed ourselves. These include UNPRI, IMVB and VBDO. This influence falls under external compliance.

We also take our stakeholders into account during the various steps. For instance, in determining the socially responsible investing policy it is important for us to know the preferences and risk appetite of our participants. This enables us to take them into account in decision-making. We want to make choices that suit our supporters.

There are a couple of elements that are relevant to socially responsible investing:

- our socially responsible investment objective, investment philosophy and risk appetite;
- the focus themes we want to concentrate on;
- the interpretation we provide through the three pillars;
- the integrated approach we follow.

Below, we explain these elements in more detail.

Sustainability objective

Our main duty is to ensure a good pension in a liveable world. That is why sustainability is fully integrated into our investment process.

This means that in all our investment decisions, we weigh up return, risk, costs and sustainability.

Investment philosophy and risk appetite

As stated above, our stakeholders' preferences are very important to us. We want support for the choices we make in this regard. That is why we have talks and organised surveys with participants, employers, the Supervisory Board and the accountability body, to gather input for our investment philosophy and risk appetite for socially responsible investing. Both were adopted in 2023 and they are reproduced in full below.

Investment targets, investment philosophy & risk appetite

Focus themes

Sustainable investment pillars

1. Limit

2. Strengthen

3. Utilise

Integrated approach

Investment philosophy for sustainable investing

“We believe that sustainability is necessary to ensure that our participants can enjoy a good pension in a liveable world. In order to achieve our long-term investment objective based on our pension ambition, we assess all our investments on the elements of return, risk, costs, and sustainability.”

- It is important to us that our investments deliver good returns and contribute to the transition to a sustainable society and economy.
- We are convinced that the transition to a sustainable society offers investment opportunities. And we want to seize those opportunities. In this respect, we prefer investments that contribute to a sustainable society and economy, also close to home.
- We are committed to pursuing a policy of active involvement. We firmly believe that our social impact will be the greatest if we use our influence as an investor to, together with other investors, push companies and countries to join the sustainable transition.
- We are of the opinion that non-sustainable business models come with major risk and should, therefore, be avoided as much as possible. With this in mind, we do not invest in companies and countries that are unable or unwilling to make the transition to a sustainable society and economy.
- Being transparent on and involving our participants in the socially responsible investing choices we make is a given for us.

Risk appetite for sustainable investing

‘Pensioenfonds PGB does not want to make investment decisions without understanding the sustainability aspects of the decision, and neither to run the risk of acting in violation of sustainability legislation.’

- Pensioenfonds PGB is not prepared to run risks with regard to compliance with relevant laws and regulations and the requirements imposed in response to national and international principles and agreements on sustainable investing to which Pensioenfonds PGB has voluntarily committed itself.
- Pensioenfonds PGB is only willing to approve new investment propositions if the sustainability aspects have been weighed explicitly and in a well-substantiated manner, are deemed acceptable, and are in line with Pensioenfonds PGB’s policy.
- Pensioenfonds PGB strives for full transparency on sustainability risks and sustainability goals, as well as on the impact of sustainability factors on the investment portfolio and the impact of investments on the community and the environment.

Focus themes

If you want to invest sustainably, you can pursue different goals. At the same time, the pension fund realises that its resources and influence are limited. Focus is therefore needed to contribute to sustainability goals in a targeted and effective manner. That is why in 2023, we conducted a survey among participants to get a better idea of what they really find important.

Based on that survey, various knowledge sessions and extensive discussions, the board established three focus themes. These three focus themes represent risks for society and the economy, but they also contain opportunities for the future. These focus themes will guide our socially responsible investment policy and its implementation from 2024 onwards.

These focus themes are:

1. climate change, including the energy transition (including SDG 13, 7, 8 and 9);
2. loss of biodiversity (including SDG 12, 14 and 15);
3. sustainable and affordable food systems (including SDG 2 and 3).



SDG stands for Sustainable Development Goals. These are seventeen sustainability goals set by the United Nations (see also the image below).

These focus themes are not entirely new to the pension fund. Pensioenfonds PGB has had a policy on climate change, human rights, labour rights and anti-corruption for several years now. These items are also discussed in the context of active shareholdership. But from 2024, these focus themes will receive more attention and provide direction to our socially responsible investment policy and its implementation.

The survey also revealed two themes - housing and healthcare - that we would like to explore further.

Three pillars of sustainable investing

Our socially responsible investment policy rests on three pillars: limit, strengthen and utilise. Each pillar answers a specific question.

1. Limit: what do we not invest in?
2. Strengthen: how do we motivate the companies and sectors in which we do invest to contribute to the fair transition to a sustainable economy and society?
3. Utilise: what specific, measurable impact do we also want to realise?

Integrated approach

The socially responsible investment policy is, as discussed in the introduction, part of the investment policy of the pension fund. In concrete terms, this means we always fully assess all investment proposals in terms of expected returns, risks, costs and sustainability aspects.

Sometimes, we have to deviate from this. This is, for instance, the case with investments that are excluded but for which selling is not possible. Or because it concerns investments in external investment funds.



Climate plan

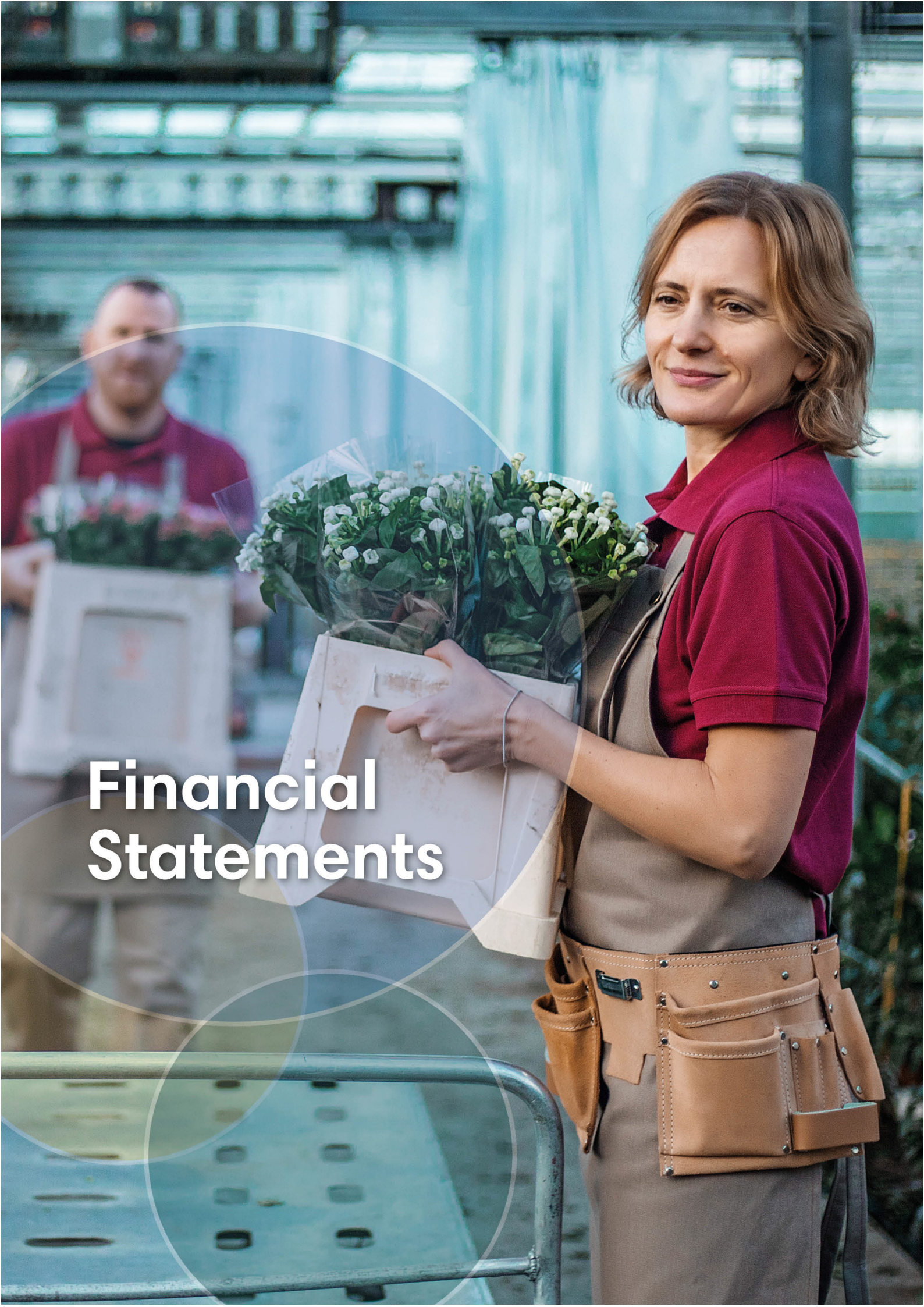
The consequences of climate change are becoming increasingly clear. That is why we have again examined and tightened our climate plan. The requirements we impose on green bonds have become stricter. We now demand an independent audit of the promised impact (e.g. energy savings, replacing fossil fuels with sustainable energy). In addition, we have also tightened the exclusion criteria for thermal coal, shale gas and tar sands oil.

We also note that the CO₂ footprint of our listed investments has fallen further compared to last year. This puts us on track for our goal: halving the CO₂ footprint by the end of 2030.

SFDR

Last year, the fund decided to provide insight into the negative impact of the investments of Pensioenfonds PGB. We do this in accordance with the EU rules, on the basis of a principal adverse impact statement, in accordance with the SFDR. The first report for 2024 will be published in mid-2025.

i Want to find out more about developments in sustainable investing? In April 2024, we will be publishing a separate (digital) annual report on socially responsible investing on pensioenfondspgb.nl/duurzaambeleggen.



Financial Statements

Balance sheet as at 31 December 2023

(after distribution of balance of income and expenses)

Amounts in millions of euros

	31 December 2023	31 December 2022
ASSETS		
<i>Property and infrastructure</i>	2,158	2,318
<i>Equities</i>	13,448	13,514
<i>Fixed-income securities</i>	17,516	13,988
<i>Derivatives</i>	3,228	3,779
Investments at the pension fund's risk	36,350	33,599
<i>Property and infrastructure</i>	36	28
<i>Equities</i>	224	161
<i>Fixed-income securities</i>	180	115
<i>Derivatives</i>	29	27
Investments at participants' risk	469	331
Reinsurance portion of technical provisions	15	9
Participating interest	1	1
Tangible fixed assets	24	25
Receivables and accrued income	937	1,930
Other assets	49	31
Total assets	37,845	35,926
LIABILITIES		
Foundation capital and reserves	3,588	3,393
Technical provisions at the pension fund's risk	28,120	25,253
Technical provisions at participants' risk	464	328
Other short-term liabilities and accrued liabilities	5,673	6,952
Total liabilities	37,845	35,926
Current UFR funding ratio	112.5	113.2
Policy funding ratio	116.5	118.7

Statement of income and expenditure for 2023

Amounts in millions of euros

	2023	2022
INCOME		
Premium contributions at the pension fund's risk	924	903
Premium contributions at participants' risk	108	82
Investment results at the pension fund's risk	3,093	-9,211
Investment results at participants' risk	38	-63
Total income	4,163	-8,289
EXPENDITURE		
Pension benefits paid	900	825
Pension administration costs	48	44
<i>Change in technical provisions for pension fund's risk</i>		
Pension accrual	678	1,042
Pension increase	1,373	2,573
Interest addition	825	-163
Withdrawal for benefits and administration costs	-921	-844
Market interest rate change	877	-10,021
Change in actuarial principles	-	328
Change under transfer of rights	-23	720
Other changes in technical provisions	58	-3
	2,867	-6,368
Change in technical provisions at the pension fund's risk	136	16
Reinsurance balance	-1	3
Balance of transfer of rights	18	-841
Other expenditure	-	19
Total expenditure	3,968	-6,302
Balance of income and expenditure	195	-1,987
<i>Distribution of the balance of income and expenses</i>		
Change in required reserve	195	-1,987



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Annual Report 2023
Pensioenfonds PGB

Prof. E.M. Meijerslaan 2 - 1183 AV Amstelveen - The Netherlands
PO-box 2311 - 1180 EH Amstelveen - The Netherlands

 pensioenfondspgb.nl
 +31 20 541 84 18