Stichting Pensioenfonds voor de Architectenbureaus

Annual report 2021

This annual report is a publication of
Stichting Pensioenfonds voor de
Architectenbureaus

Administrator
APG DWS & Fondsenbedrijf N.V.
PO Box 637, 1000 EE Amsterdam

www.architectenpensioen.nl
bestuur@architectenpensioen.nl

date
8 June 2022

Contents

I. MANAGEMENT REPORT	2
Foreword from the Board	3
Key figures	4
Dashboard	5
1 Policy	7
1.1 Themes 2021	7
1.2 Proper pension fund governance	9
1.3 Communication	11
1.4 External regulatory bodies	12
1.5 Looking ahead to 2022	13
2 Results	14
2.1 Developments financial position	14
2.2 Recovery plan update	18
2.3 Supplement	18
2.4 Costs	19
3 Asset management	25
4 Integrated risk management	35
4.1 Structure of risk policy	35
4.2 Effectiveness and efficiency of risk management	36
4.3 Developments 2021	37
4.4 Key uncertainties and 2022 outlook	38
5 Organisation	40
5.1 About the Fund	40
5.2 Remuneration policy bodies	45
5.3 Executive Office	46
5.4 Outsourcing	46
6 Supervisory Board	47
Board response	48
7 Accountability Body	49
Board response	51
II. ANNUAL ACCOUNTS	52
1 Balance sheet as at 31 December	53
2 Statement of income and expenditure	54
Appropriation of the balance of income and expenditure	55
3 Cash flow statement	56
4 General explanatory notes	57
General explanatory notes	57
General principles	58
Principles for the valuation of assets and liabilities	59
Principles for the determination of the result	64
Cash flow statement principles	66
5 Explanatory notes to the balance sheet	67
Assets	67
Liabilities	73
Risk management	80
6 Explanatory notes to the statement of income and expenditure	90
7. Premium contributions at the risk of the pension fund (from employers and	90

employees)
8. Investment results at the risk of the pension fund 91
9. Other income 92
10. Pension benefit payments 92
11. Pension administration costs 92
12. Movement technical provisions at the risk of the pension fund 94
13. Balance of transfers of rights 95
14. Other expenditure 95
Taxes 95
Adoption of the annual accounts by the Board 96

III. OTHER DETAILS 97
1 Rule under the Articles of Association on the appropriation of the balance of income and expenditure 97
2 Actuarial statement 98
3 Independent auditor's report 100
Report on the annual accounts 2021 100
Opinion on the other information included in the annual report 101
Responsibilities relating to the annual accounts and audit 101

IV. APPENDICES 103
1. Nominating organisations 104
2. External parties 105
3. Details pension scheme 107
4. Ancillary positions 108
5. Composition Executive Office 111
6. Terms and abbreviations 112

I. Management report

Foreword from the Board

This is the 2021 annual report of Stichting Pensioenfonds voor de Architectenbureaus (hereinafter referred to as the Fund). A year that saw a lot going on from an administrative point of view. In this annual report, we render account for the policy pursued, the results achieved and the appropriate risk management. In this report, you will also read how we have dealt with developments in both the pension landscape and the architectural industry. We explain how our financial situation has evolved positively and how interest rates, among other things, affect your pension, supplements and premiums.

We elaborate on what we are doing to ensure the best possible care for your pension. We invest all the premiums paid to keep pension accrual affordable. We do so in equities, bonds and other types of investment, for instance. The return achieved in 2021 is 3.7%. We also take our social responsibility by always being mindful of the world of today and tomorrow. For instance, we have committed to international agreements on corporate social responsibility from the Dutch Agreement on International Socially Responsible Investment by Pension Funds (*IMVB - Convenant Internationaal Maatschappelijk Verantwoord Beleggen Pensioenfondsen*) and have defined spearheads in this area for our investment policy. For us, key themes are climate change and sustainable immovable property. For our investment portfolio, we have selected funds that reflect our ambitions in this area.

The premium was kept at 23% in 2021. Structurally falling interest rates have made pension accrual increasingly expensive. Consequently, in 2021, the premium rate was no longer sufficient for maximum accrual from a tax point of view and we had to adjust the accrual for future entitlements downwards to 1.39%. This means that active participants accrued less retirement pension in 2021 than in previous years. However, we were not forced to cut accrued entitlements. For 2022, the premium rate was set at 24.5% and we were able to set the accrual rate at a higher level of 1.50%. Our financial position was good enough to increase your accrued pension by 1.20% from 1 January 2022. The funding ratio has increased more than estimated in the recovery plan. This allowed us to terminate the recovery plan earlier than planned. We have sufficient assets to pay out the accrued pensions now and in the future.

A lot of attention goes to communication with our rank and file. More and more, we do this by digital means. This is because we believe it is important to inform you properly and quickly about your pension. We do this through our website, the digital newsletters, on the ‘my’-environment and through LinkedIn, among other things. In 2021, we organised digital elections among pension beneficiaries for members of both the Board and the Accountability Body.

As a fund, we want to give our participants a realistic perspective of the future and help them make conscious choices for the present time and the future. That is why we also inform you in this annual report of what the revision of the second pillar of the pension system will mean for you. The outlines of the pension agreement as concluded between the Dutch cabinet and the social partners in June 2019 have now been worked out in the Dutch Future of Pensions Bill (*Wetsvoorstel toekomst pensioenen*). Abolishing the average system and allowing pensions to be paid to move with economic developments are important topics in this respect. For this, we set out with the social partners on providing a good and real prospect for our participants of all generations.

If you have any questions, please feel free to contact us. We will be happy to help you!

Key figures

(Amounts x €1,000)

	2021	2020	2019	2018	2017
Agencies, participants and pension beneficiaries					
Affiliated agencies with staff	1,340	1,314	1,380	1,313	1,166
Participants	10,050	9,349	9,142	8,448	7,954
Former participants	25,185	25,334	25,772	25,708	26,351
Pension beneficiaries	13,715	13,508	13,289	13,098	13,020
Premium and benefits					
Premium contributions from employers and employees	64,792	60,246	56,633	49,860	47,299
Pension benefits, including commutations	114,236	111,849	107,770	105,094	103,629
Investments					
Total invested assets	5,673,562	5,508,006	4,972,410	4,235,232	4,287,920
Investment results risk pension fund	212,610	601,966	802,183	674	247,082
Realised investment return	3,70%	12.20%	18.89%	0.10%	6.19%
Balance of income and expenditure	470,367	89,041	160,246	-146,517	268,027
Fictitious interest rate year-end DNB RTS	0.58%	0.22%	0.76%	1.41%	1.53%
Provisions and reserves					
Equity capital present	1,071,284	600,917	511,876	351,630	498,147
Equity capital requirement	845,887	893,082	832,271	750,600	757,997
Total technical provision	4,616,283	4,927,192	4,470,985	3,886,965	3,807,174
Funding ratio					
Policy funding ratio	118,8%	105.1%	109.0%	112.9%	110.7%
Costs					
Total costs of asset management excluding transaction costs *	14,946	11,690	13,469	13,298	13,993
Total transaction costs *	5,932	5,969	4,332	3,611	4,133
Total costs of asset management including transaction costs	20,878	17,659	17,801	16,909	18,126
Total costs of asset management excluding transaction costs as a percentage of the AIA *	0.27	0.23	0.30	0.31	0.33
Total transaction costs as a percentage of the AIA	0.11	0.12	0.09	0.09	0.10
Total costs of asset management as a percentage of the AIA	0.38	0.35	0.39	0.40	0.43
Total costs of pension administration *	3,947	3,602	3,567	3,982	4,168
Total costs of pension administration per participant or pension beneficiary in euros	166	158	159	185	199

* Mandatory disclosure under the Dutch Pensions Act (Pensioenwet); AIA: average invested assets in the year under review

Dashboard

The key issues at a glance. There are more detailed explanatory notes in the various chapters.

Financial position: As at 31 December 2021, our current funding ratio is 123.2%. In 2021, our policy funding ratio rate increased from 105.1% to 118.8%. The Fund no longer has a reserve deficit. The recovery plan, which, according to the prescribed calculation method, demonstrated that the Fund could recover within 10 years without additional measures, has been terminated. The increase in the funding ratio was achieved mainly due to equity returns as well as a decrease in the value of liabilities due to interest rate movements.

Result: We achieved a positive investment result of 3.7% in 2021.

Supplement: We have changed the supplement moment from 1 July to 1 January with effect from 2021. In 2021, we were unable to grant a supplement. However, the financial situation of the Fund as at 31 December 2021 allowed us to increase the pensions of pension beneficiaries and the entitlements of active and former participants by 1.20% as of 1 January 2022.
This supplement is not complete. Our ambition was 2.70% (CPI all households).

Premium funding ratio: The premium funding ratio as at 1 January 2021 was low at 65.2%. As a result, there is a degree of subsidising from the older to the younger generation. In 2022, the premium funding ratio based on the RTS as of 31 December 2021 is 70.5%. This is due to the increased interest rate term structure. The increase in the premium funding ratio is smoothed by the UFR adjustment. In the new pension system, there can no longer be a low or high premium funding ratio, as participants will then add their own pension premiums to their own pension capital.

Accrual rates: The accrual of the retirement pension was reduced from 1.738% to 1.39% of the pension base as of 1 January 2021. This is lower than the maximum allowed for tax purposes for which we aim. We tested the accrual rate in conjunction with the premium rate of 23 % of the pension base against regulations and calculation rules of Dutch central bank DNB. In the decision-making process, based on the solidarity and collectivity that characterises a pension fund, we considered all stakeholders: active participants, former participants, pension beneficiaries and affiliated employers. We have concluded that the set of agreements meets the interests of participants and pension beneficiaries in a balanced way. In doing so, we looked at the overall package of pension arrangements and not just the individual components. We did not change the accrual rates of partner's pension and orphan's pensions. These rates remained at 1.3125% and 0.2625%, respectively.

Responsible investing: We are not just concerned with achieving investment returns. Also from our social role, we wish to contribute to a liveable, sustainable and social living environment. That is why we have committed to the IMVB agreement on socially responsible investing. In our responsible investment policy, we have also included two focal points from the United Nations Sustainable Development Goals. Those are 'sustainable and affordable energy' and 'sustainable cities and communities'. You can read more about responsible investing in the Asset Management section.

Innovation in the architectural industry: As a fund, we are working with the social partners to make pensions a contemporary and more appropriate employment condition. We are exploring the potential of the scheme to provide more flexibility and options for participants in future financial provisions and also to encourage self-employed people to join the scheme. We want to ensure that you as a participant retire happy and stay that way.

Future of Pensions Bill: The Dutch government and the social partners agreed on the main lines of the pension agreement in the summer of 2020. Its aim is to create a more sustainable pension system that sooner offers the prospect of a purchasing power pension. In the process, pensions are becoming more transparent and personal. With the social partners, we started exploring various building blocks relevant to the new scheme.

Elections: Seats for a representative on behalf of the pension beneficiaries on the Board as well as on the Accountability Body became vacant. That is why we organised digital elections. For the Accountability Body, one suitable candidate had come forward and no vote was needed. 1,300 votes were cast for the seat on the Board.

1 Policy

In 2021, as a fund we spent a lot of time on various work for the Dutch Future of Pensions Act (hereafter referred to as WTP - *Wet toekomst pensioenen*), tailoring the pension scheme to what is common and desired, and good pension fund governance with integrity. In our communication with our rank and file, we have placed more emphasis on 'contact & together'. We have also continued to focus on 'insight and action perspective' and 'recognisable and sound'.

In this chapter, we render account for the policy choices we made in 2021.

1.1 Topics in 2021

Future of Pensions Act

In cooperation with the social partners, we started work for the WTP in 2021. This is a complex and lengthy process, involving multiple stakeholders to shape the new pension scheme. The social partners must make a choice between the solidarity contract or the flexible contract. In both contracts, pensions are administered as the premiums paid and the returns realised. The act takes effect from 1 January 2023 and we have until 1 January 2027 to adapt the scheme to the new legal framework.

We have used the past year to set up the desired WTP governance structure appropriate to the Fund and prepare a programme plan and roadmap with milestones. Our existing governance structure - with various board committees and the Protocol Committee in which cooperation with the social partners is placed - has been used to take the first steps. The Executive Office will be in charge of managing the programme. Despite this being in line with expectations, the joint social partners have not yet expressed a preference for either contract. They first want to better understand the effects of the switch from premium contribution to expected outcome. The risk preference, i.e. risk capability and risk appetite, of our participants is a major factor for the design of the new pension commitment and for the resulting policy. Asking about risk appetite will be an important moment of interaction. For now, our own estimate of participants' risk preference is used; we call this the draft risk preference. In 2022, we will actually examine the participants' risk preference.

Pension scheme

As a fund, together with the social partners, we strive for an adequate and common pension scheme with as few exceptions as possible. That contributes to comprehensibility and keeps pension administration costs as low as possible. The social partners determine the pension scheme and the Fund is responsible for administering it.

In cooperation with the social partners, we are exploring options for the future of the scheme so that we can even better ensure that you as a participant retire happy and that this remains the same during the payment phase. In 2021, the accrual rate was 1.39% per annum. This is lower than the maximum accrual rate allowed for tax purposes at a retirement age of 67. We use a retirement age of 67, as this most closely reflects what we consider the retirement date in practice.

Supplement policy

We have adjusted the date on which supplements are granted. As of 2021, future supplements in a year are no longer granted on 1 July, but on 1 January. This is more in line with common practice in other pension funds. Moreover, this was a wish of the Accountability Body, which we accommodated. On 1 January 2021, we were unable to grant a supplement.

However, the financial situation of the Fund as at 31 December 2021 did allow us to increase the pensions of pension beneficiaries and the entitlements of active and former participants by 1.20% as of 1 January 2022. This supplement was funded entirely from the Fund's assets. In case the indexation limit is legally reduced by the minister from 110% to 105%, we will discuss whether a retroactive adjustment of the indexation from 1 January 2022 is appropriate.

State pension age

A participant's state pension age is a determining factor for our Fund at various times. In the pension regulations, we have aligned with this. For instance, the end date for non-contributory participation in case of occupational disability became the state pension age from 1 January 2021. Even if a high-low construction is chosen at retirement, the moment when the benefit goes from high to low is now the state pension age. This was 67 years in both cases.

Non-contributory continuation in case of occupational disability

If participants receive benefits under the Dutch Work and Income (Ability to Work) Act (WIA - *Wet werk en inkomen naar arbeidsvermogen*), the pension fund usually contributes to the pension premium. In line with the recommendation of the Pensions Ombudsman, participants do not have to do anything for this themselves. We receive this data from the Dutch Employee Insurance Schemes Implementing Body (UWV - *Uitvoeringsinstelling Werknemersverzekeringen*) and we have not set a deadline for the application for non-contributory continuation.

ALM study

We did not perform a new ALM study in 2021. In 2020, we concluded that the use of maximum parameters for the purpose of various policy aspects, such as premium and supplement policies, is balanced for all the stakeholders. The study showed that the current investment policy is the most appropriate given the current circumstances and opportunities. We shared the results of the ALM study with the social partners.

Collection process

Regarding the collection process, we try to react as quickly as possible. We added an interim service call to the firms to the monitoring of the collection process. They now get a phone call when we notice that premium payments are behind. In case of late payment, the following means are at our disposal to mitigate the risks: payment reminder, formal notice of default, service call and, finally, assignment to a third-party collection partner.

Enforcement activities

We must grant pension entitlements to all employees of an architectural firm subject to the compulsory affiliation Even if no premium has been paid (entitlement but no premium). We run a legal and financial risk if there are firms that are unjustly not affiliated or if firms that are declared insolvent do not or do no longer pay the pension premium. We carried out additional enforcement activities in 2021 using data analysis to mitigate this risk and have asked our pension administrator APG to follow up on this in 2022.

Data quality

We are responsible for the thorough administration of the pension scheme and we ensure a controlled and sound pension administration. The quality of the data used here plays a pivotal part and it is the foundation for providing a proper and realistic future prospect. In addition, it is essential to mitigate the risk of errors as much as possible in view of the transition to the new system. We have therefore drawn up a data quality policy that specifically addresses data quality checks and monitoring.

General Data Protection Regulation

We attach great importance to the lawful, proper and transparent processing of personal data and thus the protection of those whose personal data is processed by the Fund. In doing so, we aim to demonstrably comply with privacy legislation and regulations, in particular the General Data Protection Regulation (GDPR, in Dutch: AVG - *Algemene verordening gegevensbescherming*) as well as the Dutch Federation of Pension Funds' Code of Conduct on Processing Personal Data for Pension Funds (Code of Conduct), which is derived from it for the pension sector. The Fund is able to state that it has complied with the Code of Conduct this reporting year. The year 2021 was dominated by various actions aimed at further ensuring compliance with the Code of Conduct in practice. For instance, in cooperation with APG, we have aligned our retention period policy with the Code of Conduct.

1.2 Proper pension fund governance

Code of the Dutch Pension Funds

As a fund, we believe it is very important to treat pension assets with due care. We comply with the standards of the Code of the Dutch Pension Funds, hereinafter referred to as the Code, for this purpose. In 2021, we complied with all provisions in the Code. In accordance with standard 64 of the Code, in this annual report we report on compliance with the standards according to the 'comply or explain' principle. The table below shows the location in the annual report of the specific standards prescribed by the Federation of Pension Funds.

Reporting standard	Do we meet the standard?	Location
Standard 5 The board renders account for the policies it pursues, the realised outcomes of these policies and any policy choices it may make for the future. In doing so, the board weighs the various interests of the groups involved in the pension fund. The board also provides insight into short-term and long-term stakeholders' risks, related to the agreed level of ambition.	Yes	In the Policy section, the Board reports on the policy choices it made in 2021, the policies it pursued and their realised outcomes. Regarding risks, please refer to the integral risk sub-section.
Standard 31 The composition of fund bodies in terms of suitability, complementarity, diversity, reflection of stakeholders and continuity has been laid down in policy. A check takes place both at the start of a term and mid-term at the time of self-assessment.	Yes	The Board reports in the Organisation section under 'Diversity' on the composition of the fund bodies and the suitability of their members.
Standard 33 In both the board and the accountability body or stakeholders body, there are at least one woman and one man. It includes people both above and below the age of 40. The board draws up a roadmap to promote diversity on the board.	Yes	In the 'Organisation' section under 'Diversity', the Board reports on the diverse composition of fund bodies and the objectives regarding diversity. We also indicate in the former section that we contribute to increasing diversity on boards by actively mentoring young trainees.
Standard 47 The internal supervision uses this Code in the performance of its duties.	Yes	The Supervisory Board includes the Code in the performance of its duties and reports on it in the report of findings.
Standard 58 The board provides public insight into mission, vision and strategy.	Yes	The Board describes the pension fund's mission, vision and strategy in the Organisation section.
Standard 62 The board records its responsible investing considerations and ensures they are available to stakeholders.	Yes	The Board explains the considerations for socially responsible investing in the Asset Management section.
Standard 64 In the annual report, the board reports on compliance with the internal code of conduct, as referred to in standards 15 and 16, and this Code, as well as on the evaluation of the board's performance.	Yes	In the Policy section, the board reports on compliance with the code of conduct and self-assessment of the board's performance.
Standard 65 The board ensures an adequate complaints and disputes procedure that is easy to access for stakeholders. In the annual report, the board reports on the handling of complaints and the changes in schemes or processes resulting from them.	Yes	The Organisation section reports on handling complaints and disputes. As no complaints or disputes were handled, no changes were made to regulations or processes as a result.
Standard 39 A board member is appointed and dismissed by the board after the supervisory board has been consulted on the procedure. A member of the supervisory board or review committee is appointed by the board after binding nomination by the accountability body and is dismissed by the board after binding advice from the accountability body. A member of the accountability body is appointed by the board and dismissed by the accountability body itself. In exceptional situations, the board may dismiss a member in consultation with internal supervision.	Yes	The Organisation section, under 'Accountability Body', explains that, regarding the appointment of members of the Accountability Body, the regulations have been amended in accordance with standard 39. The articles of association have also been amended to reflect this new process.

Code of Conduct

We attach great importance to conducting our business with integrity. To ensure this, we have made compliance with the code of conduct mandatory for all the affiliated persons, i.e. members of the Supervisory Board and the Accountability Body, employees of the Executive Office, external members of committees and several other persons appointed by the Board. The code of conduct provides rules and guidelines for accepting gifts and invitations and to prevent conflicts of interests and abuse and improper use of confidential information. We updated the code of conduct regarding reporting of insider information at the end of the year. All the affiliated persons have signed the code of conduct.

The code of conduct is available to everyone on our Fund's website. Our compliance officer monitors its compliance. The compliance officer reports once a year on compliance with the code of conduct. The compliance officer's report for 2021 shows that there were no issues that required additional attention. Complying with proper pension governance rules is a firmly placed item on our governance agenda. It is designed to allow Board members to report compliance issues and indicate which invitations they received. Board members also indicate which seminars, webinars and trainings they have taken, whether they have new ancillary positions and whether they have insider information. This helps raise awareness. In addition, at every Board meeting the Board members are asked whether they are in possession of price-sensitive information within the context of the insider scheme.

Periodically, we reflected on the Fund's integrity risks using the systematic integrity risk analysis. During these discussions, we considered potential conflicts of interest and the risks of apparent conflicts of interest. We have a zero-tolerance policy on integrity risk. There were no integrity issues in 2021.

Reporting of (suspected) irregularities, integrity incidents or abuse scheme

Irregularities identified within our Fund, the bodies or at parties to whom tasks have been outsourced can be reported in accordance with the Reporting of (Suspected) Irregularities, Integrity Incidents or Abuse Scheme. The scheme is available to all and can be found on the website. We have appointed an external confidential adviser affiliated persons can contact if there is reason to do so. The confidential adviser's report for 2021 shows that there were no issues that required additional attention. We anticipate an update of our scheme in 2022 due to amended legislation, i.e. the Dutch Whistleblowers Protection Act (*Wet bescherming klokkenluiders*). We will elaborate on this legislation together with our confidential adviser.

Incident scheme

We have updated our incident scheme. Using a flowchart, this scheme describes the frameworks and course of action for dealing with incidents and near-incidents that may threaten our operations. Now, it includes the data breach protocol.

Absence and inability to act
On 1 July 2021, the Dutch Management and Supervision (Legal entities) Act (*Wet bestuur en toezicht rechtspersonen*) came into force. The Management and Supervision (Legal entities) Act introduced the obligation for all legal entities to provide for a regulation for absence and inability to act, and has a regulation in case of a direct and indirect personal conflict of interest. To ensure continuity on the Board at all times, we have amended our Articles of Association accordingly.

Suitability
The Board as well as the Supervisory Board and the Accountability Body should meet knowledge, skills and behaviour requirements as a collective and as individual members. We have a suitability plan to promote suitability and a budget is earmarked for attending training or courses. In 2021, we participated in webinars and seminars on a regular basis. We have an evaluation cycle in place, which means the chairs hold annual evaluation interviews with individual Board members and assess whether training is advisable in certain areas. We thus ensure the required suitability both in terms of pension content and competences.

Self-assessment
We also conduct an annual self-assessment. This involves the performance of the Board as a whole and the performance of individual Board members. The purpose of self-evaluation is to maintain the quality of governance and promote teamwork. In this reporting year, our self-assessment took place under external guidance from TENEA. An important part of the self-assessment was the values scan. The conclusion was that, overall, there is strong alignment on integrity and individual alignment with the team provides a strongly homogeneous image. In particular, anticipatory execution power and agility were identified as areas to address, as well as communication and decision-making.

Evaluation of external consultants
We hold annual assessment interviews with our external consultants in line with our outsourcing policy. Here, we look at the mutual communication, the quality delivered, the level of knowledge, attitude and behaviour, the continuity and adaptive capability of the pension administrator, and the cost level. The Accountability Body and the Supervisory Board are informed of the outcome of these interviews.

Prudent person
The Fund conducts an investment policy in accordance with the prudent person rule. This means we invest in the interests of all the participants and pension beneficiaries. Our certifying actuary annually reviews our risk attitude, governance, investment portfolio and guidelines, derivatives, and risk management. Our investment policy is designed to balance risks with quality, liquidity and return of the portfolio as a whole. We have set up our organisation in such a way that there are proper procedures and monitoring mechanisms, policies for managing risks and that we ensure the implementation of these policies. The key issue here is that external pension administrators comply with applicable legislation and regulations.

1.3 Communication

1.3.1 Communication policy plan

As a fund, we believe communication is imperative. We have a three-year communication policy plan in place (2019 - 2021). We have observed that the pensions have become uncertain, that absolute security is no longer a given and that pensions do not just automatically rise any more. We want to offer participants a good and realistic financial future prospect. For 2021, we have identified four strategic focal points, namely: together, individual insight, helping service and helping communication.

The pension planner on the website allows people who have accrued pension entitlements with us to calculate various individual options. Here they can also access their data and overviews, pass on changes and receive massages. As of 2021, participants can also use the 'Pension Checker' app to get easy insight into their pension entitlements. This way, we offer our participants more insight and action perspective. Because although all the participants accrue pensions equally, they have a say in how they have these entitlements paid out. Participants may choose to advance retirement or have a higher amount first and then a lower amount. Participants may also convert retirement pension and partner's pension. Moreover, they may retire part-time.

Besides the regular maintenance of the website, the information available has been expanded, including regarding responsible investing. We communicate digitally more and more. Therefore, we are continuously collecting e-mail addresses of participants, former participants and pensioners. We also communicate via our LinkedIn account with short messages on a regular basis. Furthermore, in 2021, we paid a lot of attention to communications to pension beneficiaries on the elections that took place last autumn.

In cooperation with APG, we conducted customer satisfaction surveys among our stakeholders. The main resulting insight was that we need to do an even better job of showing and telling people what we stand for and the value of the pension scheme. We also need to propagate our vision of socially responsible investing and the way in which we are implementing it more than we do now. Finally, we must give participants a better understanding of what they can do themselves and indicate what help we can offer. We took these different insights into account when drafting the new communication policy plan for 2022-2024.

1.3.2 Pension register

The foundation Stichting Pensioenregister is an initiative of the joint Dutch pension funds, pension insurers and the Dutch Social Security Office (*Sociale Verzekeringsbank*). On the website www.mijnpensioenoverzicht.nl, anyone can see the amounts of their accrued and still to accrue pension entitlements. Even if pension has been accrued with more than one pension fund. These accrued and attainable nominal entitlements are all presented in a similar way, supplemented by the expected pension in neutral, best-case and worst-case scenarios.

According to the directive from DNB, we should have updated the scenario amounts based on the new scenario set for the Uniform Calculation Methodology (*Uniforme Reken Methodiek*) by 30 September 2021. We failed to do this in time; therefore, for a month-and-a-half, the correctly estimated amounts were not shown. We proactively reported this to DNB and took measures to prevent a recurrence in the future.

1.4 External regulatory bodies

DNB and Dutch Authority for the Financial Markets AFM conduct the supervision of pension funds. DNB assesses the financial aspects and AFM monitors behaviour and communication. Based on Article 96 of the Dutch Pensions Act (*Pensioenwet*), we report that, in 2021 in the Fund:

- no incremental penalty payments and fines were imposed by the regulatory body;
- no designation as referred to in Article 171 of the Pensions Act applied;
- no administrator was appointed by the regulatory body as referred to in Article 173 of the Pensions Act;
- no termination occurred of the situation referred to in Article 172 of the Pensions Act, in which the exercise of powers by all or certain bodies of a pension fund is subject to authorisation by the supervisor.

There was however an (updated) recovery plan.

We have an open relationship with the regulatory bodies. We did not have a regular relationship meeting with DNB in 2021, as such meetings are now only held once every two years. We have not been selected for a specific assessment check. In 2022, we were invited by AFM for an exploratory discussion on the WTP communication plan.

On 31 March 2021, we received a letter from AFM concerning a violation of a standard stating that there had been erroneous reporting of pension administration costs in the 2019 annual report. No formal measure was imposed. We have incorporated the findings in this letter into the 2020 annual report adopted in 2021.

1.5 Looking ahead to 2022

On 24 February 2022, Russia invaded Ukraine. This invasion has far-reaching implications and we have expressed our horror of these unacceptable and reprehensible events. There has been an influx of refugees, people were killed and injured, and there is damage to buildings and infrastructure. Our sympathy goes out to the people in the affected war zone. Besides the human impact, the economic consequences will be significant. Europe is vulnerable given its dependence on Russian gas supplies. Cutting this gas supply could lead to an energy shortage, a sharp increase in gas prices, high inflation and production disruptions. We are therefore keeping a close eye on developments in the region.

Together with our asset managers, we are looking at how to wind down our investments in Russia as soon as possible. They represent 0.35% of our investment portfolio, about €18.8 million (as at 25 February 2022).

However, trading in Russian bonds and equities is currently not possible. As a result, we are unable to sell our existing interests until that situation changes. Our investments are effectively frozen.

The share of the Russian economy and of the Russian stock market in the global economy is small. However, we see that the value of our invested assets has decreased compared to year-end 2021. We therefore closely monitor movements in the financial markets. In general, previous geopolitical crises did not lead to a prolonged decline in the value of investments. However, uncertainty is high and volatility may increase further if the conflict escalates. As a pension fund, we are a long-term investor. In doing so, we do not react immediately to a fall or rise in value, but look at the expected return in the long term. From that perspective, there is no reason to intervene further in our investment portfolio at this moment.

In cooperation with the social partners, we started work for the WTP in 2021. This is a complex and lengthy process, involving multiple stakeholders to shape the new pension scheme. Despite this being in line with expectations, the joint social partners have not yet expressed a preference for either contract. They first want to better understand the effects of the switch from premium contribution to expected outcome. The risk preference, i.e. risk capability and risk appetite, of our participants is a major factor for the design of the new pension commitment and for the resulting policy. Asking about risk appetite will be an important moment of interaction. At the beginning of 2022, we have not yet asked participants. Instead, our own estimate of participants' risk preference is used; we call this the draft risk preference. In 2022, we will actually examine the participants' risk preference.

In 2022, we will intensify our responsible investment policy and take the next steps. For instance, we are expanding various reports and making the SRI policy more visible in our communications.

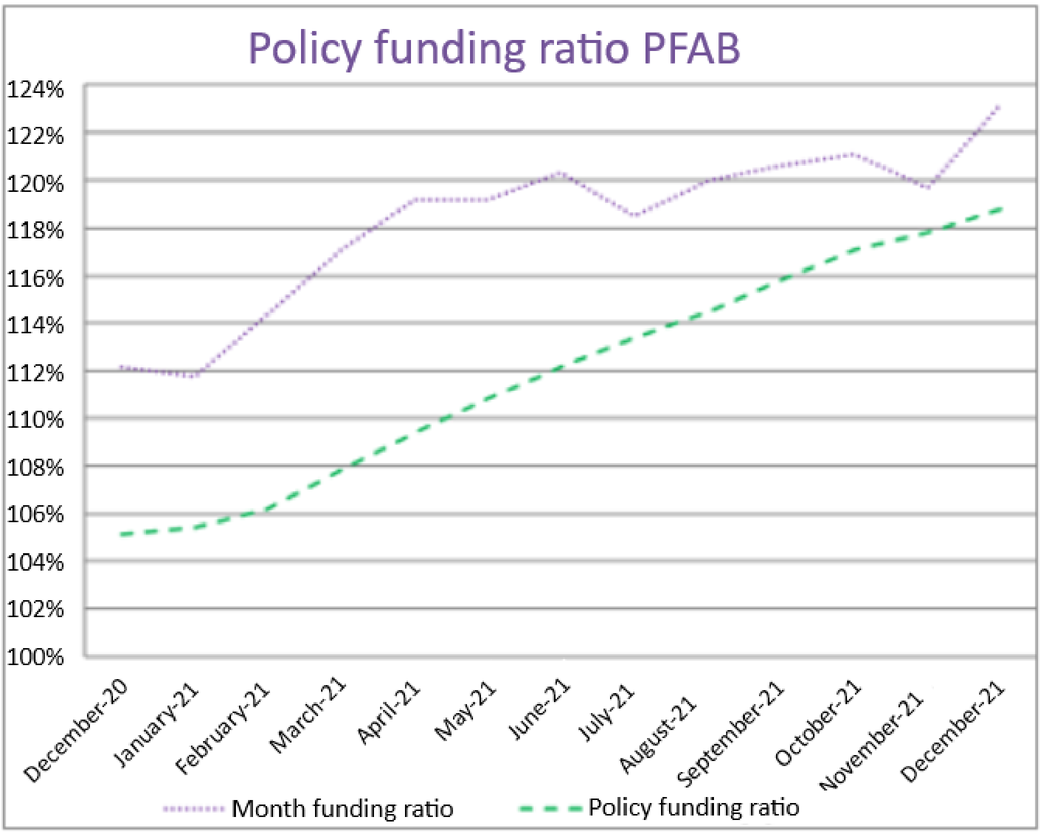
2 Results

We wish to meet the objects in our Articles of Association now and in the future. Therefore, it is pivotal that there are always sufficient funds to pay current and future benefits. Our financial policy is set out in the Actuarial and Technical Business Memorandum in accordance with Article 145.1 of the Pensions Act.

2.1 Developments financial position

Development of funding ratios

The Fund's current funding ratio increased from 112.2% to 123.2% in 2021. Most of the increase is explained by returns and increased interest rates. At the end of 2021, the Fund's funding ratio exceeded the required funding ratio of 118.3%. In 2021, the Fund's policy funding ratio increased from 105.1% to 118.8%, thus exceeding the required funding ratio of 118.3%. This means that the Fund's recovery plan has been terminated. The movements in the current funding ratio over the past year are shown in the following chart, as well as the policy funding ratio.



Premium

As of 2015, we opted for smoothing the cost-covering premium on the basis of an expected actual return, making the premium less volatile and less dependent on interest rates. Both the social partners and we seek stability in the premium with a desired range of 18 to 26% of the pension base. The social partners agreed to increase the pension contribution from 23% in 2021 to 24.5% in 2022. The annual accrual rate follows from the agreements on setting the cost-covering premium and the legal requirements on cost cover. As a fund, we are legally obliged to set a cost-covering premium.

The following shows the composition of the factual premium, the pure cost-covering premium and the smoothed cost-covering premium.

Description (amounts * €1,000)	2021	2020	2019	2018	2017
Available					
Average wage premium	64,795	60,300	56,570	49,938	46,708
Surcharge for non-contributory participation	-2,843	-2,644	-1,982	-1,688	-1,727
Surcharge for costs	-2,482	-3,851	-3,617	-3,039	-2,882
Release of non-contributory participation premiums *)					955
Required					
Required for purchase (including risk premium)	91,922	85,499	64,087	54,571	57,560
Result on premium	-32,452	-31,694	-13,116	-9,360	-14,506
Pension scheme premium	23%	23%	23%	23%	23%

*) no longer applicable from 2018 due to reservation on PV entitlements instead of PV premiums

Pure cost-covering premium (% of pension base)	2021	2020	2019	2018	2017
Purchase and risk premium	32.6	32.6	26.1	25.1	28.2
Non-contributory participation occupational disability	1.0	1.0	0.8	0.8	0.9
Solvency (required equity capital)	6.1	6.3	5.1	5.2	5.5
Cost surcharge	0.2	0.3	0.4	0.6	1.5
Total	39.9	40.2	32.4	31.7	36.1
Factual premium	23.0	23.0	23.0	23.0	23.0
Surplus (+) or deficit (-)	-16.9	-17.2	-9.4	-8.7	-13.1
Premium funding ratio (ex post)	68%	67%	84%	86%	75%

Smoothed cost-covering premium (% of pension base)	2021	2020	2019	2018	2017
Purchase and risk premium	11.5	9.4	9.3	9.3	9.6
Non-contributory participation occupational disability	0.4	0.3	0.3	0.3	0.3
Solvency (required equity capital)	2.1	1.8	1.9	1.9	1.9
Cost surcharge	0.2	0.3	0.4	0.6	1.5
Surcharge conditional supplements	7.9	6.1	5.8	8.7	9.2
Total	22.1	17.9	17.7	20.8	22.5
Factual premium	23.0	23.0	23.0	23.0	23.0
Surplus (+) or deficit (-)	0.9	5.1	5.3	2.2	0.5

Evaluation of premium policy

With low interest rates, pensions are becoming increasingly expensive and more premiums are needed to fund them. As in previous years, we have set the factual premium rate for 2021 at 23% of the pension base. The factual premium was thus set at cost-covering levels according to the method of the smoothed cost-covering premium, taking into account future returns to be achieved. We do not differentiate between participants' gender, age or health for premium purposes. 55% of the pension premium is paid by the employer. The employee pays 45%.

From 2021, the smoothed cost-covering premium rate is based on the reduced maximum expected returns. As a result, the smoothed cost-covering premium rate rose sharply in 2021, meaning that the factual premium rate of 23% of the pension base would no longer be sufficient to fund an accrual rate of 1.738%. The social partners set the premium rate for 2021 at 23%, resulting in us having to adjust the accrual rate downwards from 1.738% to 1.39%.
As a result, there was no need to increase the factual premium and the factual premium remained higher than the smoothed cost-covering premium. However, this means the pension scheme is no longer utilised at its maximum from a tax point of view. The accrual rate of the dependants' pension remained the same.

The solvency surcharge is a surcharge designed to increase or maintain assets. When setting the smoothed cost-covering premium rate, this surcharge may be offset against the surcharge for conditional supplements. Currently, the required solvency surcharge is lower than the surcharge for conditional supplements. Only the excess is presented as a surcharge for conditional supplements. A percentage is also set for pension scheme administration costs, by which the pension premium is increased.

Balance of premium policy

As in previous years, in pursuing the premium policy based on the solidarity and collectivity that characterises a pension fund, we considered the balancing of interests. We represent the interests of all the stakeholders as evenly as possible. In doing so, we accept a low premium funding ratio. Despite the fact that the premium in 2021, at 23%, did not fund the full increase in the provision, we concluded that the premium meets the conditions of a balance of interests. In the short term, the difference is funded by the Fund's assets. Those assets belong to all the participants collectively. In the longer term, the returns achieved should be sufficient to fund accrual, after which further returns are earmarked for supplements.

We assessed the balance of our premium policy using the initial viability test. Based on the results, we concluded that the premium policy is balanced for all the participants in all age cohorts. After all, the period between the time of premium payment and receiving a benefit is generally sufficient for the returns achieved to fund the cost of accrual.

For the premium calculation, we used the maximum returns of the Parameters Committee. These are also used in the recovery plan to determine whether the recovery is sufficient to avoid having to make cuts. If the returns taken into account are not achieved, there will ultimately not be enough assets to fund all the pensions including supplements. This risk is spread over all participants of the Fund, as, in that case, all the pensions are cut. Actual returns have been higher in recent years.

Premium funding ratio

Because we calculate the premium with an expected return, movements in interest rates are not directly reflected in the premium. The current interest rate determines the provision we need to maintain on the balance sheet for the new pension accrual. That current interest rate is lower than the expected return net of inflation, so the increase in the technical provision due to pension accrual is higher than the increase in assets due to incoming premiums. At a premium funding ratio of 100%, the growth of the technical provision is funded exactly. With a premium funding ratio below 100%, part of the pension accrual is funded from equity capital and is only expected to be made up by returns over time.

We informed the social partners of the low premium funding ratio and entered into dialogue with them to determine the ambition of the scheme in relation to the desired premium level. We have agreed that in the event that the Fund has to cut pension entitlements due to an insufficient policy funding ratio, the social partners and the Fund will come to an agreement on a premium funding ratio that entails sufficient balance at the level of the pension result.

Positive result due in particular to interest rate term structure and investments
In the 2021 financial year, the Fund incurred a positive result of €470 million. This result was largely due to the movement in the interest rate term structure and, to a slightly lesser extent, positive investment returns.

Interest rate term structure
We calculate the provision for pension liabilities based on the expected future benefits that follow from current accrued pension entitlements. These benefits are discounted at the interest rate term structure as determined and published by DNB. The average interest rate for calculating the provision for pension liabilities increased from 0.22% to 0.58% in 2021. As a result, the provision for pension liabilities decreased by approximately 6.5% in total. This resulted in a positive result of €315 million.

Investment returns and interest
Despite the negative return on fixed-income securities and interest rate derivatives due to increased interest rates, the positive return on marketable securities led to a positive investment return of 3.7% on balance. The positive investment returns (net of investment costs) combined with the interest required on the provision for pension liabilities led to a positive result of €239 million.

Premium
The result on premium is mainly due to the system of premium smoothing used by the Fund based on expected returns. As a result, the premium received is lower than the addition to the provision due to new pension accruals. This resulted in a negative result of €32 million.

Granting of supplements
Thanks to the increased funding ratio, a partial supplement of 1.2% could be granted on 1 January 2022. Supplements increase the provision for pension liabilities, resulting in a negative result of €54 million.

Feasibility test
With the introduction of the Dutch Financial Assessment Framework (FTK - *Financieel Toetsingskader*), we conducted an initial feasibility test for the first time in 2015. The purpose of the feasibility test is to provide insight into the Fund's financial position and the pension outcome that participants can be expected to achieve, based on a stochastic calculation of the current Fund policy over a 60-year horizon, using a prescribed scenario set. With the feasibility test, together with the social partners we assess whether the policy still matches ambition and risk attitude. We are required to conduct this test annually. The test demonstrated that the financial design and expected pension outcome match the Fund's risk attitude. The test against the lower limits in 2021 set by the social partners is summarised in the following table:

Type of limit	Limit	Test 2021
Lower limit expected pension result	74.0%	97.1%
Maximum deviation in a worst-case scenario	45.0%	31.7%

Based on the 2021 feasibility test, we have come to the conclusion that the policy is appropriate. If the annual feasibility test shows that the set limits are exceeded, we will consult with the social partners on the potential effects and whether adjustment of the scheme or policy is necessary.

2.2 Recovery plan update

Based on the rules of the FTK, our funding ratio on 1 January 2021 was insufficient and we had to make an updated recovery plan under Article 138(2) of the Pensions Act. In this recovery plan, we have shown since 2015, through a standard arithmetical exercise prescribed by DNB, that there is sufficient recovery capacity to recover to the equity capital requirement within the statutory period, without additional measures or cuts. Annually, provided the Fund is still in deficit at the measurement, the recovery plan is updated.

As part of a balanced consideration of interests, we opted for a recovery period of 10 years. During this period, we expect to restore the funding ratio to the required level in time without any special measures such as cuts. The forecast in the 2021 recovery plan gave a funding ratio of 115.5% by the end of 2021. However, the policy funding ratio at the end of 2021 equals 118.8%, exceeding the required funding ratio. Therefore, the Fund no longer has a reserve deficit as at 31 December 2021 and is formally 'out of recovery'. That is why we did not have to submit a recovery plan in 2022.

2.3 Supplement

Each year, we determine whether, and to what extent, our financial position allows for supplements to accrued entitlements and pension benefits. We do not reserve money for this. Supplements are funded from investment returns to be achieved. Therefore, in setting the premium, funding of supplements from returns is also taken into account. The yardstick for granting supplements for participants, former participants and pension beneficiaries is the increase in the consumer price index of Statistics Netherlands (CPI all households with reference period October to October) for all the stakeholders.

We apply the following supplement policy:
- If the Fund's policy funding ratio is below 110%, no supplement is granted.
- If the policy funding ratio is between 110% and the level at which a full future-proof supplement can be granted, a future-proof partial supplement is granted.
- If the policy funding ratio exceeds the level at which a full future-proof supplement can be granted, i.e. approx. 125%, the full supplement is granted. This may also include any repair of reductions in nominal pensions or past supplements not fully granted.

A future-proof supplement means that the amount of the supplement for a year is calculated in such a way that, based on a prescribed future increase in investments, the same level of supplement can be granted relative to price inflation in any future year. We reserve the right to deviate from the above policy in special cases. In all cases, we adhere to the requirements set out in the Pensions Act and subordinate regulations regarding the maximum level of supplements to be granted.

As the policy funding ratio as of 1 January 2021 was below 110%, we had no room to grant a conditional supplement based on the graduated policy scale *and* from a statutory perspective. We therefore did not grant any supplement on that date. On 1 January 2022, we were able to increase pensions by 1.20% due to the increased policy funding ratio as at 30 September 2021. Our ambition was an increase of 2.70% as inflation over the reference period was 2.70%. The cumulative indexation gap is 22.12% for active participants and 23.68% for inactive participants and pension beneficiaries.

Increase in pension entitlements over the past five years:

Reference date	pension increase	price increase
1 January 2021	none	0.96%
1 July 2020	none	1.40%
1 July 2019	0.53%	2.80%
1 July 2018	0.10%	1.10%
1 July 2017	none	0.10%

2.4 Costs

The Fund incurs various costs for the administration of the pension scheme. Broadly speaking, these costs can be divided into pension scheme administration costs and asset management costs. In 2019, we decided to allocate all explicitly attributable overheads to pension management or asset management costs. Overheads that cannot be attributed on a one-to-one basis are then allocated 50% to pension management costs and 50% to asset management costs. This makes the costs per participant more comparable with other pension funds.

Pension management costs

Below is an overview of the costs of the pension scheme administration. This also includes comparative figures relative to 2020. The costs are presented taking the Federation of Pension Funds' recommendations and AFM's guidelines into account. The costs of pension management for 2021 are €3,947,000 including VAT (2020: €3,602,000). Converted, this is €166 (2020: €158) per participant.

Amounts in thousands of euros

	2021	2020
Governance, advice and monitoring:		
Governance costs	605	650
Executive Office	563	489
Membership fees and contributions	307	315
Audit and consulting fees actuary	104	259
Accountant costs	74	72
Supervisory Board	66	64
Consultant costs	141	31
Miscellaneous	27	40
Total	**1,887**	**1,920**
Of which allocated to asset management costs	-859	-913
Administrative costs	**2,919**	**2,595**
Total pension managements costs	**3,947**	**3,602**

	2021	2020
Active participants	10,050	9,349
Pensioners	13,715	13,508
Total	**23,765**	**22,857**
Pension management costs in euros per participant	**166**	**158**

Pension management costs for 2021 have increased relative to the costs of 2020. The main differences are reflected in the costs of the Board, the Executive Office and the consultants, and the actuary's audit and consulting fees.

The higher Executive Office costs are mainly due to our decision to increase the use of the risk management function. The higher consultant costs are mainly due to the appointment of a communications specialist.

Governance costs are lower in 2021, in particular due to the abolition of VAT on the remuneration of Board members and members of the Supervisory Board and Accountability Body. The lower costs in 2021 for the actuary's audit and consulting fees are explained by a comprehensive review of the premium policy and an ALM study in 2020. There were no such costs in 2021.

As a fund, together with the social partners, we strive for an adequate and common pension scheme with as few exceptions as possible. That contributes to comprehensibility and keeps pension administration costs as low as possible. This aim also translates to the service level of pension administration, where the Fund seeks alignment with common administrative and communicative service concepts and solutions.

Costs are important to us. Therefore, we have included in our mission statement that we administer the pension scheme at acceptable costs. That this is not without obligation is reflected by the fact that we have a task-setting budget. The costs of €180 per participant are the guiding principle herein. The costs for 2021 have increased compared to those for 2020. With the ever-increasing developments around pensions, the requirements from legislation and regulations and the increased amount of work as a result, we believe the costs are justified and appropriate for a fund of our size. The fact that, on average, we as a fund incur lower costs than comparable pension funds reinforces this belief.

We participate in an external cost benchmark survey every year. Its purpose is to test our Fund's costs against those of comparable pension funds. Our pension management costs during 2018-2020 were lower than the average at comparable pension funds, namely €167 versus €208 per participant. Taking only the year 2020 into account, our pension management costs are also lower than the pension management costs at comparable pension funds, i.e. €158 against €194 per participant. Here, we have assumed explicit allocation of overheads to pension management or asset management costs. The Fund's costs are significantly lower than those of comparable pension funds, but also significantly higher than the average of all pension funds (including ABP and PFZW) in the Netherlands. Our administrative costs are a large part of the costs.

The Fund is also participating in the cost benchmark survey for 2021. The results will be included in the next annual report.

Asset management costs

We adhere to the Federation of Pension Funds' Pension Administration Cost Recommendations in presenting the costs of asset management. All amounts below are X €1,000.

Overview of key figures on asset management costs

	2021	2020
Average managed assets *	**5,501,315**	**5,092,202**
Management costs including performance-related costs	14,946	11,690
Transaction costs	5,932	5,969
% of average invested assets		
Management costs including performance-related costs	0.27%	0.23%
Transaction costs	0.11%	0.12%
Total	**0.38%**	**0.35%**

* The average managed assets are the average invested assets in the year under review

Explanatory notes on asset management costs

Based on the average invested assets of €5,501 million, the reported cost of asset management increased by 0.03 percentage points from 0.35% for 2020 to 0.38% for 2021. Costs in absolute terms have fallen. Total performance-related costs increased from €2.0 million in 2020 to €4.4 million in 2021. This is due to the high returns achieved on the private equity class. The 2021 total return on private equity was over 42% including dividends paid. In this asset class, costs are partly related to returns, i.e. performance-related.
As a result, costs were also high in 2021. Total transaction costs and buying and selling costs decreased from €6.0 million in 2020 to €5.9 million in 2021. These transaction costs are partly based on a proxy of bid and offer prices.

The total costs reported in this overview thus amount to €20.1 million for 2021 (€17.7 million in 2020). Per participant/pension beneficiary, the costs are €879 (€773 in 2020). As we largely invest in investment funds in 2022, the fixed and variable management costs and transaction costs related to these funds are part of the returns achieved. It should be noted here that we take passive management as our guiding principle wherever possible. This is actually only possible with the liquid investments. The relative investment risk of these liquid investments is very low, as the aim is to track the relevant benchmark as closely as possible. The returns achieved are therefore very close to those of the relevant benchmarks, with the differences being caused mainly by the management and transaction costs of the investment funds while the benchmark does not have those. In particular, the costs of passive management are, therefore, relatively low. This partly explains the relatively low total costs of asset management against comparable pension funds.

In the third-party cost benchmark survey we participate in every year, our Fund's asset management costs are benchmarked against those of comparable pension funds. Our asset management costs, calculated as a percentage of the average invested assets, were lower than the average asset management costs of comparable pension funds in the period 2018-2020, namely 0.28% against 0.34%. Here, we have assumed explicit allocation of overheads to pension management or asset management costs. The Fund is also participating in the cost benchmark survey for the 2021 costs. The results will be included in the next annual report.

Management fee asset managers

The performance-related costs only apply to a number of investment funds managed by PGGM and did not change during 2021. The higher performance in several funds compared to last year led to an increase in performance-related costs.

Performance-related fees include those based on agreed performance targets. The performance-related fees for private equity managers are based on the positive results in the current reporting year. In determining performance-related fees, the returns of private equity investments from previous years are also taken into account. Only 0.8% of the total assets are invested in private equity and this class is being scaled back in the future. To allocate performance-related fees to the current reporting year, additional money has been reserved.

Transaction costs

Transaction costs are a separate cost type, where costs are determined by type and size of the transactions taking place within the investment portfolio. We invest largely in investment funds. The cost statement is based on full transparency, i.e. look through, of transaction costs in these funds. A distinction is made between entry and exit fees and actual transaction costs.

Entry and exit fees are levied when units in the investment funds are bought or sold. These are fixed rates based on the expected actual transaction costs to be incurred as a result of the entry or exit. The total fees from all the unit holders received by an investment fund are allocated as revenue to the unit holders in proportion to each one's interest in the fund. This is also how we get revenue allocated. The more entries or exits unit holders make, the higher this revenue. The entry and exit fees paid by the Fund are thus netted. This balance is included under 'Transaction costs'.

If the fees paid by us are lower than the allocated revenue, a negative cost item arises in the cost statement. Actual transaction costs are incurred as a result of the abovementioned entries and exits and for the transactions for the regular management of the investment funds. These are also allocated in proportion to the interest in the investment fund.

Buying and selling costs on direct investments in investment securities such as government bonds, interest rate derivatives and currency derivatives, consist of brokerage and transaction costs that are part of the spread between bid and offer prices.

Assessment costs of asset management

Our asset management costs and transaction costs, as a percentage of the average invested assets, were higher in 2021 than in 2020. In absolute terms, the costs in 2021 were €3.2 million, rounded, higher than in 2020. There were higher management costs due to increased invested assets. Custody costs were higher in 2021 than in 2020 due mainly to the higher value of equity investments. We are of the opinion that the level of asset management and transaction costs is justified and appropriate to the investment policy and the way it is pursued.

The evaluation of asset management costs is purest if it includes the targeted return, risk diversification, size of the invested assets and returns achieved. Our investment principles are the foundation of our approach. We deliberately chose a passive investment style. We invest in investment funds and aim for benchmark-compliant returns. This investment style offers the best opportunity to achieve our target return on the most favourable terms possible. This approach entails lower costs than, for instance, an active investment style that seeks a return higher than the benchmark return. For completeness' sake, we additionally present a breakdown of costs by investment class below.

2021	Management costs	Performance-related costs	Transaction costs: Transaction costs excluding buying and selling costs	Buying and selling costs	Total
Costs per investment class					
Property	1,983		9	20	2,012
Equities	1,466	262		1,158	2,886
Alternative investments	484	3,899	53	1	4,437
Fixed-interest securities	1,326		-154	3,109	4,281
Other investments	1,032	209	705	455	2,401
Total costs to be allocated to classes excluding overlay	6,291	4,370	613	4,743	16,017
Costs of overlay investments	1,465		576		2,041
Total costs to be allocated to classes including overlay	7,756	4,370	1,189	4,743	18,058
Other asset management costs					
Asset management costs pension fund and Executive Office	859				859
Costs of fiduciary management	1,200				1,200
Custody fees	41				41
Asset management advisory fees	368				368
Other costs	352				352
Total other asset management costs	2.820				2.820
Total costs of asset management	**10.576**				**20.878**

2020	Management costs	Performance-related costs	Transaction costs: Transaction costs excluding buying and selling costs	Transaction costs: Buying and selling costs	Total
Costs per investment class					
Property	2,016	-	9	272	2,297
Equities	1,339	180	-	630	2,149
Alternative investments	1,210	1,838	253	22	3,323
Fixed-income securities	1,258	-	63	3,363	4,684
Other investments	45	-	2	343	390
Total costs to be allocated to classes excluding overlay	5,868	2,018	327	4,630	12,843
Costs of overlay investments	1,149	-	1,012		2,161
Total costs to be allocated to classes including overlay	7,017	2,018	1,339	4,630	15,004
Other asset management costs					
Asset management costs pension fund and Executive Office	913				913
Costs of fiduciary management	1,279				1,279
Custody fees	36				36
Asset management advisory fees	146				146
Other costs	281				281
Total other asset management costs	2,655				2,655
Total costs of asset management	**9,672**				**17,659**

3 Asset management

Vision on asset management

Our guiding principle for the investment policy is to meet the pension fund's obligations in the long term, taking inflation into account. The guiding principle for the policy to be pursued is the composition of the ALM base mix based on the outcome of the latest ALM study.

The ALM base mix consists of several components. Marketable securities include investments the long-term return of which is expected to outperform the movements in liabilities. These investments are relatively risky - both separately and relative to liabilities. Fixed-income securities contain relatively safe investments that hedge part of the interest rate risk.

In doing so, the following principles, i.e. beliefs, apply:

- Investments match the pension fund's liabilities and ambitions. The choice of strategic investment policy here is the most important decision in the investment process.
- Investments are made only in investment classes for which it is expected that an appropriate risk premium in proportion to risk, relative to liabilities, will be received.
- Diversification across and within investment classes and risk premiums improves the portfolio's risk and return profile.
- Risk analysis and risk management are necessary for a controlled formulation and implementation of the investment policy.
- Responsible investing contributes to responsible, stable and good investment performance and also expresses the social commitment of the pension fund.
- The pension fund believes interest rate and currency movements cannot be predicted. Because of the importance attached to risk management, these risks are hedged strategically, with the degree of hedging depending on the specific characteristics of the risk with respect to liabilities and funding ratio and the possibilities of efficient and controlled hedging.
- Financial markets are highly efficient and thus passive investing is the guiding principle, unless markets can be described as inefficient or if passive management is not possible. After all, efficient financial markets do not allow for additional returns through active investment choices.
- As a long-term investor, the Fund can invest part of its assets in products that cannot be sold directly, but therefore provide additional returns.
- The pension fund invests in products it understands and can explain itself.
- Individual asset classes must be of sufficient size to make a material contribution to the portfolio and to render account for the increase in portfolio complexity.
- Cost awareness is crucial when setting up an investment portfolio. Expected returns are uncertain but, mostly, costs are not.

We believe that responsible investing contributes to responsible, stable and good investment performance and we herewith also express our social commitment. To this end, the investment policy takes environmental, social and governance factors into account. This involves integrating these factors into our investment decisions, engaging with companies to bring about behavioural change, excluding investments that do not meet our requirements and being able to hold investments specifically targeting these factors. Implementation takes place within our administering organisation and within the funds in which investments are made. The consequences are visible in the set-up of the portfolio and are monitored by us. The section ‘Responsible investing in retrospect 2021’ contains a more detailed explanation of the policy development and results regarding socially responsible investing.

We carefully choose the benchmarks used to guide asset management execution. This choice is based on the desired risk profile. The investment strategies reflect this.

We have a preference for physical investments. Derivatives are only used if they contribute to mitigating risks for the Fund or if the use of derivatives is inevitable for efficient portfolio management.

A favourable investment year

2021 was dominated by the COVID-19 pandemic, record levels in stock markets and rising inflation. Our hopes that the COVID-19 virus would be overcome after 2020 did not materialise. The COVID-19 virus therefore remained a dominant theme in 2021. Economic growth rebounded early in the year as vaccination programmes in the western world gathered momentum and lockdown measures could be lifted. However, concerns about the COVID-19 virus rapidly increased again with the discovery of new more aggressive, i.e. delta, and more infectious, i.e. omicron, variants of the virus.

Market confidence was positively affected by stimulus measures by central banks and governments. For instance, the US rolled out $1.9 trillion in aid packages at the beginning of the year, followed by another $1 trillion in infrastructure investment in November. In Europe, it was decided to issue bonds as the EU to finance stimuli.

Another major trend of 2021 was the unprecedented rise in inflation. While in 2020 higher inflation seemed far away and even deflation was still seen as the biggest danger, in 2021 inflation has risen to levels not seen since the 1980s. Inflation in the eurozone rose to almost 5% over a one-year period, while in the US it went as high as 7%. The main cause was initially strong recovery demand from consumers after the lockdowns were reversed. The supply side could not keep up with this strong growth in demand. Major problems soon arose in the global supply chain, best epitomised by the ship Ever Given blocking the Suez Canal dominating the news for weeks. Commodity prices also rose sharply as high demand for raw materials could not be met. After all, during the COVID-19 crisis in 2020, investments in extraction of raw materials were scaled down substantially.

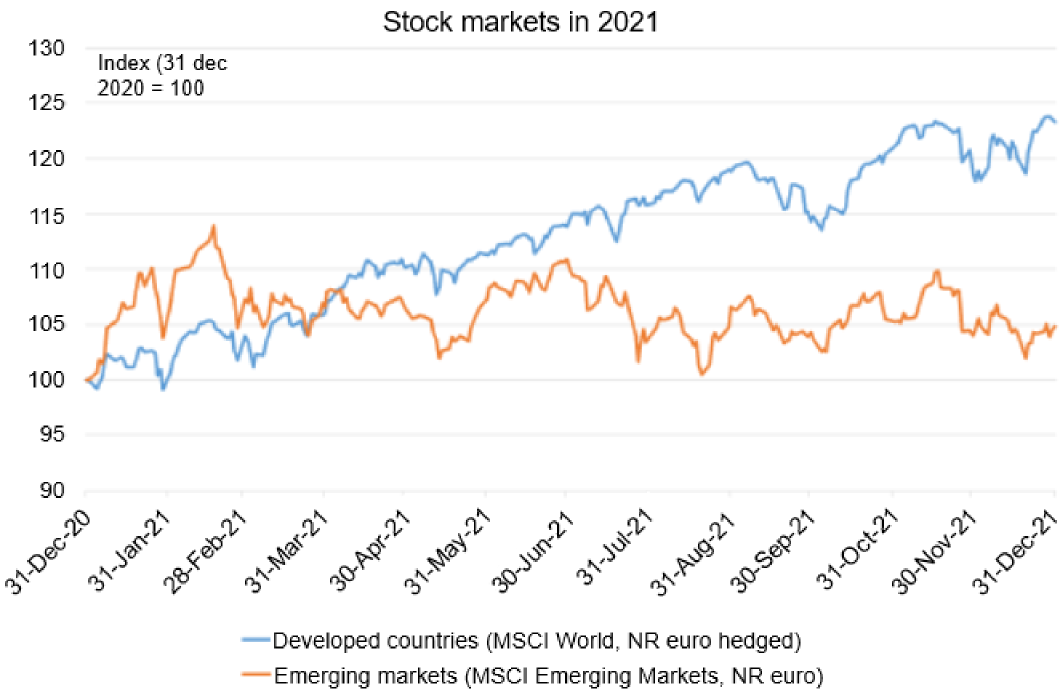
Initially, the market perception was that high inflation would only be a temporary phenomenon and that it would fall again once the supply chain recovered. Gradually, however, the realisation dawned that high and rising inflation nevertheless has structural features, such as sharp increases in housing prices and a large labour shortage in many sectors, leading to higher wages. High inflation and associated higher interest rates are now among investors' biggest concerns for the coming years.

Another major theme of 2021 is that the image of China has become more worrisome. Under Xi Jinping's leadership, Chinese government policy has shifted, with the government seeking to exert more control over society. This led, among other things, to technology companies being called to order. In addition, the property sector in China ran into trouble when it became clear that property firm Evergrande was unable to meet its payment obligations. And while the Chinese government is keen on reducing risks in this sector, it cannot afford large-scale insolvencies either. This brought about a balancing act towards the property sector that will last for some time. As a result, apart from the still ongoing geopolitical tensions between China and the US and Europe, there are major concerns about China's economic growth. As China has been the main component in the growth of the global economy in recent years, this leads to uncertainty worldwide.

Equities

A strong recovery of economies after the 2020 lockdowns, record corporate profits and unprecedented stimulus measures by central banks and governments led to sharply rising share prices in 2021. It was not until November that concerns about high inflation and rising interest rates got the upper hand and the upward trend in equity prices stalled. Developed-market equities (MSCI World Index euro-hedged) achieved a return of 22.5% in 2021. In fact, the US stock market achieved a return of almost 27.5% over 2021 (S&P 500 index euro-hedged). The highest returns were achieved in the energy and property sectors.

Emerging market equities had a less positive year though, with a 5% return (MSCI Emerging Markets Index in euro). Emerging markets particularly suffered from the downturn in the Chinese economy, while a stronger US dollar also worked against them. The MSCI China Index (in euros) lost as much as 16% in 2021.



We have a diversified strategic portfolio, of which we invest 45% in marketable securities and 55% in fixed-income securities. The total investment portfolio achieved a return of 3.7%. This was driven by a 16.5% return in the return portfolio and a -10.3% return in the matching portfolio. The matching portfolio decreased due to increased interest rates, which had a favourable effect on the Fund's funding ratio. The Fund's assets at the end of December 2022 amounted to €5.67 billion.

On balance, the policy funding ratio rose from 105.1% to 118.8% in 2021. The current funding ratio rose from 112.0% to 123.2%. The main factor behind the rise in the current funding ratio was the stock market, which rose on balance.

Policy pursued

We have recorded the Fund’s investment policy pursued in 2021 in the investment plan and investment guidelines. The investment beliefs have been an important guide in creating the strategic investment policy based on the 2017 ALM study. In 2020, the ALM study was carried out again, which did not lead to a change in the strategic portfolio. In the study, we tested the strategic investment policy against our risk attitude as well as against a number of elaborated stress scenarios. Based on the outcomes, no adjustment to the strategic investment policy was found necessary.

The strategic investment policy is shown below:

Marketable securities	45%
Fixed-income securities	55%

Fixed-income securities include the relatively safe classes of government bonds, mortgages and corporate bonds, as well as riskier high-yield bonds in the emerging market debt class. Marketable securities include equities, property, private equity and infrastructure. We hedged 55.8% (market basis) of the interest rate risk in 2021 in line with our strategic investment policy. Matching and return portfolios were used for portfolio classification. This includes the relatively safe fixed-income securities in the matching portfolio and the high-yield fixed-income securities and marketable securities are part of the return portfolio.

The purpose of all the investments is to meet liabilities. The aim of the matching portfolio in doing so is to mitigate the interest rate risk and the aim of the return portfolio is to generate additional returns for recovery, indexation and keeping the scheme affordable.

Other developments

In the summer, PGGM informed the pension fund that PGGM intends to close its investment funds by the end of 2022. This would mean we had to transfer our investments held in PGGM's investment funds elsewhere. Following the PGGM's announcement, we entered into dialogue with PGGM to identify what consequences this could have for us and how the adverse consequences could be mitigated as much as possible.

The returns achieved

The total return amounted to 3.7%. This return has been composed as follows:

	portfolio	benchmark	difference *
Return portfolio (including currency hedging)	**16.5%**	**15.9%**	**0.6%**
Equities	28.0%	28.0%	0.0%
High-yield bonds	-2.1%	-1.9%	-0.2%
Property SAREF	9.0%	9.0%	0.0%
Property Bouwinvest	11.0%	11.0%	0.0%
Infrastructure	3.8%	1.3%	2.5%
Venture capital	0.0%	4.6%	-4.6%
Private loans	3.1%	-0.9%	4.1%
Private equity	16.4%	4.6%	11.3%
Matching portfolio (including interest rate hedging)	**-10.3%**	**-11.3%**	**1.0%**
Government bonds, liquid assets and swaps	-21.7%	-21.7%	0.0%
Corporate bonds	-0.9%	-1.1%	0.2%
Private mortgages	1.9%	-3.1%	5.2%
Total	**3.7%**	**2.9%**	**0.8%**

* The relative return has been calculated based on the geometric method. As a result, the difference does not always equal the portfolio benchmark return

The return on equities amounted to 28%. Emerging market equities performed worst at 8%. Just as last year, property investments yielded high returns, reflecting developments in the Dutch housing market. The venture capital class consists of participations in two Dutch city restoration funds and accounts for less than 0.1% of the assets. In the matching portfolio, returns on euro government bonds were negative due to increased interest rates.

The performance of the asset managers is assessed against the benchmark, based on the average market returns.

The portfolio is predominantly invested passively and therefore its performance virtually equals the benchmark. The return on the private equity portfolio excludes the dividend paid for 2021.

Responsible investing policy
We believe that responsible investing contributes to responsible, stable and good investment performance and it is an expression of our social commitment. In 2021, we paid attention to mapping the sustainability risk in the portfolio and made arrangements with PGGM and our fiduciary manager on the implementation of our policy. In doing so, we took into account developments in this area, such as regarding IORP II, the Responsible Business Conduct Agreement on responsible investment by Pension Funds and the Sustainable Development Goals (SDGs). In collaboration with our fiduciary manager, we developed a comprehensive ESG risk scan to gain additional insight into the portfolio's climate risks. In doing so, we paid particular attention to the transition risks associated with a changing climate. Also, we tried to tie in with the methodology used by DNB in the stress test of pension funds.

Policy development 2021
In 2021, we further developed the socially responsible investing (SRI) policy based on a survey conducted among participants, former participants and pension beneficiaries.

We considered the relevance and urgency for both the portfolio and society when setting priorities for the SRI policy. An important prerequisite here is that companies in which we invest are not structurally involved in, for instance, serious environmental pollution, corruption or human rights violations. Consultation with participants shows that climate change is seen as one of the main areas of concern. We underline this and have therefore included climate change as one of the focus areas. Long-term value creation is one of the guiding principles for our socially responsible investing policy. We implement this principle by making a positive contribution to sustainable long-term development and balanced social relations through our investments.

In 2021, we commissioned a comprehensive SRI analysis for each asset class. This prompted us to formulate additional measures for the high yield class in the selection process to reduce the ESG risk of this class. As this solution was not yet available in the market, we worked with our fiduciary manager and a number of external asset managers to implement sustainability criteria explicitly and in a way that was relatively new to the market. High yield is an asset class which includes many companies in oil and gas extraction. In addition to the exclusions we adhere to and the engagement programme, we have included in the mandate a carbon reduction target of 30% compared to the benchmark. The reduction target is reviewed periodically and adjusted if necessary.

We also reviewed our holdings in developed-market equities and examined so-called climate benchmarks. We continue this review in 2022.

Responsible investing in retrospect 2021
We report in a transparent manner on both sustainability factors affecting our investments, i.e. financial materiality, and on how our investments affect society and the environment, i.e. external materiality/impact.

Through our asset management activities, we invest globally, both directly and indirectly, in almost all business sectors, through a range of different asset classes and using various investment strategies. This means we are exposed to many different aspects of the global economy through our investments. Adverse effects may result from or relate to the economic activities of the assets in which we invest.

We measure Environmental, Social and Governance (ESG) scores of the companies in our portfolio. In Dutch, ESG is defined as *Milieu*/Environment, *Maatschappij*/Society and *Goed ondernemingsbestuur*/Good Corporate Governance. The ESG score is a figure for the extent to which a company operates sustainably and responsibly. The portfolio's ESG score is expressed ranging from 0 to 100.

In 2021, the main ESG indicators showed an improvement in both absolute and relative terms compared to December 2020. The overall ESG score rose from 62.7 to 67.7. This puts the portfolio's ESG score nearly in line with the benchmark score but it is better than MSCI's score. This is also in line with expectations as we invest in passive funds without an explicit ESG score objective.

The equity funds have an explicit carbon reduction target and this is reflected in the portfolio's carbon intensity compared to the benchmark. In 2021, carbon intensity fell 127 tonnes of CO2 per $M of sales to 92 tonnes of CO2 per $M of sales. An improvement can also be seen compared to the benchmarks. At the beginning of 2021, our overall portfolio had a 25% lower carbon intensity versus the benchmark. This difference has increased to 41% lower carbon intensity by the end of 2021. In terms of sectors, we see that the largest contribution comes from materials, i.e. mining, and utilities, i.e. energy companies. Incidentally, these sectors also have the largest relative gains compared to the benchmark.

OECD screening

Like many Dutch pension funds, the Federation of Pension Funds and many non-governmental organisations (NGOs), trade unions and the Dutch government have also signed the Dutch Agreement on International Socially Responsible Investment.
This agreement aims to help pension funds get a better picture of the international investment chain. The main purpose of the agreement is to identify, mitigate and prevent adverse impacts within the investment portfolio, such as human rights violations and environmental damage. In this agreement, the parties aim to work together to create a more sustainable society. This cooperation covers practical and legal opportunities as well as taking the Dutch government's responsibility under the OECD guidelines, the human rights principles of the UN Global Compact and the UN Guiding Principles on Business and Human Rights (UNGPs) into account.

To identify companies in the investment portfolio and assess them for their adverse impact on people and planet, we developed a screening method known as OECD screening. In this screening we use data from accredited external data providers. We avoid investments that very seriously breach the above directives. The implementation of this screening is therefore aimed at conducting OECD and UN Global Compact screening to identify specific controversies companies may be involved in. We have been using this screening method in our equity portfolios since early 2021. For the equity portfolio’s, much data is available to help us get a better picture of a company's involvement in controversy. Based on a score assigned to a specific controversy involving the company, we decide to divest from the company or engage with the company to encourage movements towards better behaviour. In 2021, we divested from 68 companies based on OECD violations because these companies demonstrably failed to comply with the standards. We engaged with 66 companies to encourage better behaviour.

Total number of companies with adverse impact	
OECD survey	134
Divestments	68
OECD engagement	66

For private markets, data is less readily available. Nevertheless, we face the challenging task of conducting our OECD screening also in private asset classes. From the end of 2021, we therefore screen our existing private equity investments, infrastructure and private property for adverse impact. In addition, new investments in these asset classes are subject to strict criteria to minimise the likelihood of investing in securities that may generate adverse impact. In the spirit of the OECD guidelines, we first engage with the company or fund manager. If this engagement fails, divestment may be a next step.

What we do not invest in

We wish to avoid making investments that do not suit our participants. This is also an issue that our stakeholders deem important.

In line with our SRI policy, we exclude companies involved in controversial weapons and tobacco activities from the funds and internally managed mandates of PGGM. In early 2021, we added coal and bituminous sands to these product-based exclusions. Companies that derive a large part of their revenue from coal mining, coal-fired power generation and oil extraction from bituminous sands have proven to be unable or unwilling to embrace the energy transition. The existing listed investments in such companies were sold in the first quarter of 2021. By the end of 2021, we also implemented these exclusions of coal and bituminous sands for new and existing private market investments. A total of 109 coal companies and 10 bituminous sands companies were excluded.

In addition, we do not invest in government bonds of countries subject to UN Security Council and/or European Union sanctions. We may also exclude companies in case of elevated ESG risks. In such cases, we first try to make improvements by engaging in dialogue with the company. An example of such an exclusion in 2021 is the exclusion of a company because of its involvement in the military regime in Myanmar. This company did not respond to our requests for engagement.

For our investment portfolio, we have selected funds that reflect our ambitions in the field of socially responsible investing. We regard climate change a very important topic. One of the targets of the equity portfolio is to cut the carbon emissions of the equities in the investment portfolio in half in 2021. By selling shares of the most polluting companies in the most polluting sectors (energy, materials and utilities), PGGM reduces the carbon emissions of its investment portfolio. We also engage with the companies of which we own shares and ask them to emit less carbon dioxide.

Our experience with carbon reduction over the past few years indicates that its course can be unpredictable. In 2018, carbon intensity became increasingly intense, while in 2020 it fell more than expected due to unforeseen circumstances. This underlines the need to be cautious about drawing firm conclusions based on a single number.

We also measure the return contribution of carbon reduction on the equity portfolio. Over the past few years, this has been slightly positive and constant at 0.06% a year. This is in line with the intended design: to achieve a substantial reduction in the equity portfolio's carbon footprint, with no adverse contribution to risk/return. This objective was thus achieved across both dimensions.

Active share ownership

Engaged share ownership requires tolerance and demands the deployment of high-quality knowledge to be able to have a fruitful dialogue with a company board and exert maximum influence. We have invested in this for years and have been successful. Companies benefit from critical, active shareholders who incite more sustainability governance. In doing so, we seek coalitions to engage with other institutional investors. This increases our impact because the total share is larger.

Our managers have brought focus to engagement activities. This focus is on (i) People & Health and (ii) Climate, which are linked to seven corresponding SDGs. Our active-ownership activities are largely aimed at creating a positive impact on these SDGs. PGGM also engages with companies when major issues arise. This reactive commitment has been expanded as a result of the new OECD screening mentioned earlier and introduced in 2021.

The engagements carried out by PGGM are recorded in a specially built database. PGGM documents projects and discussions in this database, sets targets in advance and monitors progress. If progress is too limited, PGGM may decide to divest. In 2021, cooperation with 154 companies was in force. 15 results were achieved.

Distribution of engagement activities at companies according to focus areas in 2021	
Anti-competitive behaviour	7
Business ethics	20
Good governance	6
Human rights	51
Labour rights	7
Land use	1
SDG 1 (no poverty)	3
SDG 3 (good health and well-being)	4
SDG 6 (clean water and sanitation)	36
SDG 12 (responsible consumption and production)	2
SDG 13 (climate action)	28
Total	**165**

Climate change and active ownership

Climate change is one of the biggest challenges facing the world today. We believe active share ownership is the most effective way we can contribute. We are currently involved in 48 corporate dialogues on climate, including five oil and gas companies. Our engagement efforts are spread across three areas. First, we are working with five oil and gas producers from Europe and North America through the collaborative initiative Climate Action 100+. Second, we are committed to 25 food companies to ensure that their supply chains are deforestation-free by 2030. In doing so, we use satellite technology to detect deforestation, which we discuss with our investors. Finally, we are working with 16 Asian banks involved in financing fossil fuel assets. This is done through the Asia Transition Platform, a cooperation initiative launched by PGGM Investments in collaboration with five other investors and led by Asia Research & Engagement. Progress towards 'Paris alignment' will be reviewed at the end of 2023 based on the Transition Pathway Initiative; lack of progress means selling the shares.

Voting

By voting at shareholder meetings, we exercise our influence as shareholders on the companies we invest in. Voting allows us to exert directive influence on many issues: strategic, financial and social. As a basis for voting, PGGM, in consultation, annually prepares a voting guideline setting out the vision. The voting is largely automated. The guiding principle is to vote as advised by our voting service provider, based on the voting guideline. We actively monitor voting activity based on multiple voting service providers and sources. Where appropriate, PGGM also addresses shareholders' meetings in order to strengthen our voice and publicly debate with companies we have invested in. This applies in particular to Dutch companies.

In 2021, PGGM voted in our favour at 5,903 shareholders' meetings of listed companies. Based on the voting policy, more than 60,900 proposals were voted on.

The figure below shows in which regions and on which issues we voted in 2021.

Votes in 2021	
Number of shareholder meetings	5,903
Number of shareholder meetings at which we voted	5,900
Number of shareholder meetings at which we did not vote	3
Number of agenda items voted on	60,921
Percentage voted on	99.95%

Legal proceedings

PGGM conducts legal proceedings on behalf of its clients when necessary, for instance to recover investment losses and enforce good corporate behaviour. We do this as shareholders in listed companies, both in the Netherlands and abroad, distinguishing between active and passive proceedings.

In 2021, PGGM was involved in 11 active legal proceedings on our behalf. For instance, we have participated in collective actions against Volkswagen in Germany and BHP Billiton in Australia. In the Volkswagen case, we are part of a group of shareholders seeking damages for losses caused by Dieselgate, where the company has already been found guilty of deliberately misleading regulators and other authorities regarding emission levels. The case against BHP Billiton relates to the collapse of a dam in Brazil, co-owned by BHP Billiton, which was (knowingly) poorly maintained. This eventually led to its collapse. Apart from the environmental and human tragedy surrounding this collapse, BHP Billiton shareholders have also suffered losses for which investors are demanding compensation. One of the actively litigated cases that led to a settlement and payment to one of our funds in 2021 was against the pharmaceutical company Valeant in Canada. In 2021, we recovered more than €943,000 in class actions. These are lawsuits in which we collectively take a claim to court with other parties.

Tax behaviour in the portfolio

Taxes play an important role in financing society's collective expenditure, such as healthcare, education and infrastructure. Taxpayers also have a responsibility here and PGGM therefore wants to deal with taxes in a sustainable way in its business operations. The tax environment has changed and will continue to change. In recent years, for instance, several international initiatives, such as those of the OECD and the EU, have focused on increasing tax transparency and preventing aggressive tax planning. In addition, tax planning continues to come to the fore in the social debate. PGGM will always be mindful of such developments when investing for its clients.

Investment structures can be used to avoid economic double taxation for pension fund clients and their beneficiaries. In doing so, PGGM respects both the letter and the spirit of applicable national and international tax legislation and regulations. In doing so, its tax principles and tax positions, published in a Sustainable Tax Position Paper, are taken into account. PGGM's board is responsible for the design, operation and evaluation of this tax policy.

Focus area climate

Climate change has been our concern for years. It is a pressing issue and an increasingly important risk. As a global investor with a diversified portfolio, we expect climate change and the energy transition to impact the investments of our clients. Each new year, previous climate risk estimates are replaced by new and always more material estimates. This underlines the need to fully integrate climate risk into our processes and financial risk management policies.

The relationship between climate change and investing is twofold. On the one hand, investment decisions have an impact on the climate. We see a social responsibility to reduce the adverse impact on the climate. On the other hand, climate change and climate change mitigation measures affect the value of our investments. It is our fiduciary responsibility to understand and respond to these effects. We therefore consider this to be one of our material issues. In managing our investment portfolio, PGGM contributes effectively to in the energy transition in the interests of participants.

It is also part of our climate strategy to identify and mitigate climate risks for all asset classes. Full integration of climate risks, and, extended, sustainability risks, into existing risk management is further enforced by new regulations such as the Alternative Investment Fund Managers Directive (AIFMD) and the Markets in Financial Instruments Directive II (MiFID II). Stress tests on climate risks are expected to be made mandatory by DNB from 2022. In the coming years, PGGM and our fiduciary manager will have to provide greater insight into climate and other sustainability risks of investment products that meet the requirements of the Sustainable Finance Disclosure Regulation (SFDR). SFDR is a European law, introduced to improve transparency in financial markets for SRI products and prevent greenwashing. In addition, the European Insurance and Occupational Pensions Authority (EIOPA) will conduct a stress test for pension funds in 2022 in which climate risks will be a major focus.

Pensioenfonds voor de Architectenbureaus complies with EU sustainability legislation, including the SFDR and EU Taxonomy. We refer to the website www.architectenpensioen.nl/over-ons/verantwoord-beleggen for our SRI reports and specific SFDR and EU Taxonomy reporting. This classifies Pensioenfonds voor de Architectenbureaus as a so-called SFDR Article 8 product that promotes environmental or social features. In addition, the EU Taxonomy entered into effect on 1 January 2022. It requires organisations to report the extent to which its activities contribute to the environmental targets of the EU Taxonomy from the 2021 financial year. At present, there is insufficient reliable, timely and verifiable data available to establish this. Therefore, we currently report a percentage of 0% Taxonomy Alignment.

Z score

The z-score is calculated each year and shows the difference between the portfolio's actual return and the benchmark's return. A positive figure means that investments have outperformed the market. For a negative figure, the opposite is true. In the calculation, the costs are also taken into account. The z-score for the year 2021 is 0.77.

We also set the Fund's cumulative performance test each year. The cumulative performance test is determined over a five-year period. If the performance test measured over five years is below zero, we have underperformed. If that is the case, employers are no longer bound by our compulsory affiliation. That means that, in that case, they may choose to transfer their pension scheme elsewhere under certain conditions. Our cumulative performance test over the period 1 January 2017 to 31 December 2021 is 0.79.

Economic outlook

Growth and inflation

Last year, the US and EU were expected to grow very strongly by 2022. Although the outlook has darkened slightly, forecasts have not really changed.

Similarly, looking at forecasts for inflation during the year, there is an expectation of a reasonable increase.

4 Integrated risk management

4.1 Structure of risk policy

To us, risk management is a major part of the decision-making and pension administration process. It contributes to the achievement of the Fund's objectives, sound and controlled operations and compliance with legislation and regulations. It allows us to render account for our risk control. We aim to continuously improve our integrated risk management as part of the strategic and operational processes.

Risk governance
We have set up risk management along the three lines of defence. With the day-to-day management, the Investment Advisory Committee, the Communications and Pension Committee, the Board forms the first line. As a board, we collectively bear ultimate responsibility for risk management. The day-to-day management, the Investment Advisory Committee, the Communications and Pension Committee have executive and monitoring responsibilities for risk management within the scope of the committees. From this role, the committees also oversee risk management at our service providers.

The key roles Risk Management and Actuarial and the compliance officer form the second line. Holding the key roles Risk Management and Actuarial are vested in one Board member. This is the key function holder RAC. The performance of these roles has been placed with Sprenkels & Verschuren.

The RAC key role has an advisory, challenging and reviewing role towards the first line. From this role, the key function holder RAC monitors the day-to-day management, the Investment Advisory Committee and the Communications and Pension Committee, the RAC key role holder reviews opinions from the committees against the risk management policy and the RAC key role holder provides the Board with solicited and unsolicited advice on risk management. The RAC key role holder additionally manages the integrated risk management policy. The RAC key role holder is supported in his task by the Risk Committee. The Supervisory Board oversees risk management and compliance policies, organisation and processes and provides an annual review thereof.

The third line is formed by the key role Internal Audit. The key role Internal Audit reviews the first and second lines. Since June 2020, the key role holder was an external specialist. The performance of this function has been vested in accountancy firm Mazars.

Risk governance is anchored in the regulations of the Board and committees, charters of key roles and, among other things, in the integrated risk management policy.

Risk management strategy
The mission, vision and strategic objectives and the Fund's risk attitude are the guiding principles for the extent to which we wish to run financial and non-financial risks. This has been formulated as framework risk appetite. As a whole, the Board's risk attitude that is broken down into four risk areas, can be described as critical. Risk appetite is reflected through risk appetite principles and further concretised through risk tolerance limits.

Risk processes
We employ a comprehensive risk management methodology embedded in the strategic and operational management of the Fund. As a result, well-considered choices are made regarding the desired set of management measures that contribute to being in control. The structural and uniform mapping of risks and the effectiveness of the control measures in place

provides insight into the extent to which we control our organisation. This framework is the foundation for our decisions.

Risk identification
We use a dynamic risk management framework for the strategic and operational risks. Potential risks and scenarios, applicable control measures and outstanding actions are identified periodically.

Making the risk assessments
Risks are qualitatively assessed based on the likelihood of the event occurring and its impact on achieving the strategic objectives. Here, we distinguish between inherent risk, residual risk and desired risk.

The inherent risk is the risk without taking into account any control measures the Board takes to reduce the likelihood and/or impact. Inherent risk depends on the context in which the Fund operates and its objectives. The residual risk is the risk remaining after acting on the inherent risk. If the residual risk is not or not yet acceptable based on the risk appetite, additional actions are defined to achieve the desired risk. Risk assessments, control measures and actions may change in response to internal and external developments, but also to new insights. Therefore, integrated risk management is a continuous process of risk analysis, design, implementation, reporting and adjustment. We use an annual integrated risk management plan for this purpose.

Risk awareness
Integrated risk management can only be effective if it is supported by the behaviour of Board members, employees and stakeholders. We strive for a culture in which transparency, a constructively critical attitude towards each other and integrity are self-evident. We are aware of our exemplary role and shape it, among other things, by including an explicit risk consideration with a review by one of the committees in proposed decisions. We ensure effective role assignment among committees and include risk management in Board and committee self-assessments.

4.2 Effectiveness and efficiency of risk management

In terms of the effectiveness and efficiency of risk management, we have the ambition to at least achieve maturity level 3, i.e. ‘sufficient’ - structured and formalised. We have already largely achieved this ambition.

The overall effectiveness and efficiency of the Fund’s risk management are evaluated annually from different perspectives. Assessing the effectiveness and efficiency of the Fund’s risk management is part of the self-evaluation of the committees and the Board. In addition, the RAC role evaluates it separately from the Board's self-assessment. In 2021, efficiency and effectiveness were also assessed by the Board as part of conducting an own-risk assessment.

We had a structural focus on both strategic risk management and operational risk management in 2021. In doing so, we focused on strengthening the strategic cycle. Partly in the context of the own-risk assessment we completed in 2021, we recalibrated the strategic framework. We reviewed the established risk appetite and (re)confirmed the strategic objectives. The strategic objectives, partly in the context of the WTP, still need to be made more concrete to some degree. Operational risks are monitored structurally by the committees. With regard to financial risks, further strengthening was achieved last year: accountability reporting from the Investment Advisory Committee to the Board and evaluation of investment policy components.

The cooperation between the actuarial functions (executive actuary, consulting actuary, actuarial function and certifying actuary) is aimed at allowing the Board to be optimally in control of actuarial risks. For the 2020 annual work, the division of roles in certification was applied for the first time to the satisfaction of the various functions. The design of the second line and the cooperation with the first line enables us to rely on sufficient internal expertise and countervailing power on all topics for our decision-making. This allows the Fund to rely fully on its own governance with an additional positive effect on the quality of our decision-making.

The development continued in 2021 to move towards a fully integrated second-line RAC role with the ambition to particularly further strengthen strategic risk management within the Fund at Board level is close to being achieved. The developments due to the WTP do however lead to the need to review the appropriateness of our risk management.

4.3 Developments 2021

Discussing risks has been a regular item on the agenda of every Board meeting. This agenda item allowed everyone to raise issues that may pose a risk. Topics discussed included WTP, developments at PGGM, developments in the financial markets, ESG and socially responsible investing.

Assessment of key risks
Due to developments in financial markets, low interest rates and volatility in stock markets, we have identified interest rate risk and market risk as the Fund's highest financial risks. These risk categories are continuously monitored by the Investment Advisory Committee. It constantly assesses whether the risks are still managed properly. Risks are also considered and assessed as a whole based on the investment and risk management policies.

Financial risks

Implementation of interest rate risk management policy
When interest rates change, the value of our liabilities changes with them. If interest rates fall by 1%, liabilities increase in value by about 20.4%. This 20.4 is also known as duration or interest rate sensitivity. Interest rate sensitivity is a major risk for the pension fund and we therefore hedge part of this risk. The policy was set on the basis of an ALM study that was reviewed again in 2020. Based on the results of the ALM study, we decided to maintain a hedge rate of 55.8% of the interest rate sensitivity of the liabilities based on market interest rates, corresponding to 70% on UFR basis. The factual hedge based on market interest rates at year-end equalled 56.4%. There is a range around the target rate within which the factual hedging rate should be. This range has been set at +/- 4%.

The interest rate hedge is structured on the basis of five maturity buckets to thus achieve high hedge effectiveness, regardless for which interest rate maturities the changes in the yield curve occur. This includes a range per maturity bucket for timely adjustment. This policy has been laid down in the investment guidelines.

The implementation of interest rate policy has been outsourced to BMO Global Asset Management on the basis of investment guidelines. BMO reports on the implementation in the asset management reports received monthly and quarterly. In addition, a quarterly risk report is received in which BMO elaborates on interest rate positions and sensitivities. We conducted interest rate risk management in 2021 in line with the policy within the set risk limits and range.

Implementation of market risk management policy
The strategic allocation between fixed-income (matching portfolio) and marketable securities (return portfolio) was set at 55% versus 45% for 2021. The assets invested in the matching portfolio consist of high-quality European

government bonds, interest rate swaps, Dutch mortgages and high-quality corporate bonds issued in euros. The assets invested in the return portfolio consist of marketable and high fixed-income securities. The factual size of the two sub-portfolios varies due to market developments, but should be between 43.5% and 49.5% for the matching portfolio and between 50.5% and 56.5% for the return portfolio. If the size of these portfolios is outside the range, this should be restored within three months. This has been set out in our investment guidelines. Implementation has been outsourced to BMO.

In the asset management reports received on a monthly and quarterly basis, BMO reports on the size and returns of the matching and return portfolios. The custodian reports on this in the monthly compliance report.

4.4 Key uncertainties and 2022 outlook

We closely monitor developments taking place in and around the pension landscape, within the sector and within the Fund and discuss them on a regular basis at Board meetings. These developments may offer opportunities, but also confront us with uncertainties.

In 2022, we will continue to pay attention to developments regarding the new pension system and movements in the financial markets. ESG risks, integrity risks, IT and cybersecurity risks and data quality will also continue to have our attention.

Future of Pensions Act (WTP)
The impending changes to the pension system involve many uncertainties. The transition to the new pension system is considered to be a very radical, time-consuming and complex process, with great demands on the adaptive capability of pension funds and their pension administrators. The consequences of the choices following the new regime have a potentially major impact on the Fund's participants and organisation. With the publication of the WTP consultation paper, the possibilities, conditions and requirements from legislation and regulations for the new pension system have become clearer. We started preparing for the WTP in 2021. Many dependencies do still exist, involving various stakeholders. We anticipate risks in the fields of communication to participants, governance and pension administration of the scheme.

The complexity of the new scheme and the expectations participants and employers may have will put pressure on our communications. Lack of proper communication on the new scheme could adversely affect the base of support for the new contract. The effectiveness of governance and decision-making may also come under pressure due to, among other things, the complexity of decisions on the pension agreement to be administered due to changing roles of various stakeholders. We are entering a complex transition process in the coming years, while regular governance and pension administration have to continue as usual.

The risks in the new pension system are managed with the establishment of a structured transition path, social partners and the pension administrator.

Developments PGGM
PGGM decided to close its investment funds in 2021. We are unpleasantly surprised by PGGM's decision and see no reason to end our long-standing cooperation. However, PGGM's decision means that we must prepare for a transition from our duty of care to our participants. We have instructed the Investment Advisory Committee to investigate the possibilities.

In this respect, the dilemma is that - in the framework of the WTP - the Fund has to make some far-reaching choices about the pension scheme, its implementation and the mode of survival of the Fund. This may have implications for the design requirements of the asset management.

Financial development

Despite the fact that the stock markets have recovered quite well and the funding ratio has increased as a result, developments in the financial markets, low interest rates and volatility in the stock markets are creating uncertainties for the fund financially. Developments regarding Russia and Ukraine and their impact on our investments must also be monitored.

5 Organisation

5.1 About the Fund

5.1.1 Name and registered office

Our Fund was founded on 26 June 1958 and has its office under the Articles of Association in Harderwijk. We are registered under number 41199584 with the Dutch Chamber of Commerce. The Articles of Association were last amended in January 2022.

5.1.2 Compulsory affiliation

The Dutch Ministry of Social Affairs and Employment has made our scheme compulsory for firms primarily engaged in architectural work. In 2020, we again demonstrated our representativeness, making the pension scheme applicable to all employers and employees falling within the scope. This is the case if mainly architectural work is carried out. This means that 50% or more of the hours to be spent involve architectural work. Based on SBI codes, expressing the main activity of a company, and Chamber of Commerce registrations, we continuously check whether there are firms that have mistakenly not affiliated with us.

There are a number of reasons why the compulsory affiliation system was created and why we believe compulsory affiliation serves the interests of the participants.

- Shared costs: we administer the same scheme for a large group. This way, costs are shared between several firms. Arranging pensions and investing together is cheaper.
- Shared risks: we invest part of the premium. Investing is necessary to keep the pensions affordable. Risks are distributed in solidarity across a large group, over a longer period and across the generations. We also share the occupational disability risks and mortality risks with each other.
- Being a responsible employer: because we arrange for the pension scheme in the same way for all the firms in the architectural sector, it does not affect the mutual competitive position of firms.
- Joint participation: both firms and participants contribute to the premium. Both interests are equally represented and promoted in the Board and the Accountability Body.

5.1.3 Our objective

Our Fund aims to protect all the stakeholders from the monetary consequences of old age, occupational disability and death.

5.1.4 Our mission

To guide decisions we drew up a mission statement a few years ago. The Fund's participant takes centre stage. We administer the pension scheme for participants, former participants, pension beneficiaries and employers in the architectural sector at the request of the social partners and on the basis of the risk profile determined by them. We do so in a sustainable manner, with helpful service, clear communication and at a stable and acceptable premium, acceptable costs and explainable risks. We wish to give participants, former participants, pension beneficiaries and employers of all generations a good and realistic future perspective and help them invest well in their future. Our guiding principle in doing so is that participants retire happy and remain happy afterwards.

5.1.5 Our vision

We have observed that pensions have become uncertain, that absolute security is no longer a given and that pensions do not just automatically rise any more. We see that complexity, governance clout and compliance with legislation and regulations are important when considering issues regarding the independence of our Fund. Funds are increasingly becoming a form of administrative solidarity. We deliberately assume the principle of solidarity. We see that the benefit from our Fund is just one of the things people receive after their working life. We believe that attention is needed to give people insight and action perspective on the quality of their future. We wish to tap into those opportunities.

We see that the architectural sector is in great flux. The changing market necessitates faster change. More flexibility is expected from us. More and more, labour is provided by self-employed workers. In time, the size of the sector may no longer relate to the costs that need to be incurred to administer the pension scheme optimally. Base of support within the sector and recognisability for participants should be factored into the discussion of the future.

5.1.6 Size of the Fund

Participants, former participants and pension beneficiaries
We are one of the 50 largest pension funds in the Netherlands. The number of participants actively accruing pension with our Fund has revealed an upward trend since 2014. At the end of 2021, that number was 10,050. The technical provision for active participants has also shown an upward trend since 2017. There is high volatility among participants. Research shows that people re-entering the job market account for about 45% of the number of starters.

The number of pension beneficiaries rose to 13,715. There are 25,185 former participants who left our sector before their pension entitlements became payable. Nor have they transferred their pension entitlements to any new pension provider. Due to the high number of former participants, pension accrual in relation to costs is suboptimal. The male-female ratio is about 2 to 1.

Affiliated firms
The number of affiliated firms employing staff rose from 1,314 at the end of 2020 to 1,340. Firms with a large number of participants (more than 70) and small firms (up to 6 employees) in niche markets are dominant. A number of firms participate in the Fund on a voluntary basis. Statistics Netherlands has over 5,000 architectural firms registered in 2021, most of them with one person working (self-employed persons). There are about 2,000 active self-employed persons.

Invested assets
The invested assets increased an amount to over €5.5 billion.

5.1.7 Composition of Board committees and bodies

All the stakeholders can count on us to act with expertise and integrity and to balance the interests of all the stakeholders. The Board is composed with equal representation and each Board member has voting rights. We have a rotation schedule in place to ensure continuity. With each rotation, we check whether suitability is still sufficiently present.

There were no changes in the governance model. The Articles of Association define how Board members can be appointed, reappointed, suspended or dismissed. A term of office has a duration of four years, with possibly two reappointments. Below you can view the composition of the Board as of 31 December 2021:

Members employers	Appointed until	Nominating organisation
Mr G. T. J. Meulenbroek, chair (1968)	1 January 2025	BNA
Mr R. G. Nagtegaal (1954)	1 July 2025	BNA
Ms M. M. E. P. Groenen (1967)	1 July 2025	BNA
Members employees		
Ms J. G. E. van Leeuwen (1986)	1 January 2023	FNV
Mr H. W. T. de Vaan, vice-chair (1974)	1 September 2022	CNV Vakmensen
Members pension beneficiaries		
Mr I. Slikkerveer (1963) (elected after elections)	1 July 2026	De Unie
Members independent		
Mr P. de Groot (1958)	1 June 2026	Not applicable
Mr A. Soederhuizen (1965)	1 June 2026	Not applicable

We said goodbye to Mr W. M. Parênt. We thank him for his years of commitment as chair of the Fund. The employers' association appointed Mr G. T. J. Meulenbroek nominated as successor. We appointed Mr Meulenbroek as a Board member with effect from 1 January 2021. Mr Meulenbroek was appointed as chair with effect from 1 January 2022. DNB approved this reappointment. The position of chair is held alternately for two years by a Board member from the employees' side and the position of vice-chair by a Board member from the employers' side and vice versa.

With effect from 1 July 2021, Ms Groenen was appointed for a second four-year term and Mr Nagtegaal was appointed for a third and final term. They were both nominated by BNA. We also reappointed Mr Slikkerveer. Mr Slikkerveer participated in the elections for the seat on the Board from 1 July 2022 on behalf of pension beneficiaries. Of the 12,029 people entitled to vote, 1,300 (10.81%) cast their votes, of whom 819 voted for Mr Slikkerveer.

At the beginning of 2021, we said goodbye to Mr M. Lindemulder. We had appointed him as a trainee from Pensioenlab. Mr Lindemulder conducted research into the experiences around mandating, which we used to further shape mandating to achieve more effective and efficient governance. We strongly support Pensioenlab and wish to contribute to their goals of continuing to give young people a voice in pension issues and promoting diversity in pension fund bodies. Due to our strict interpretation of our Articles of Association, we are unable to sponsor Pensioenlab with a monetary contribution but do so in an immaterial way by actively mentoring trainees on the basis of a specific assignment. The trainee is compensated for this. In September 2021, we appointed Mr Van Nunspeet as a trainee from Pensioenlab. His task is to examine the implications of the removal of the compulsory affiliation.

Diversity

We highly value diversity and look beyond visible personal characteristics. This contributes to balanced consideration of interests and effective management. However, our requirement of suitability prevails over diversity. A prospective Board member must meet the objective criterion of suitability at all times. During the year under review, two women and six men served on our Board. One Board member is under 40 years old, the other seven Board members are over 40 years old. We thus comply with the diversity requirements of the Code of the Dutch Pension Funds.

Research has shown that the alignment of various personal values of a group of people largely influences cooperation. At value level, we strive for as much homogeneity as possible, as this enhances cooperation and mutual commitment. The outcome of our team values scan showed that integrity, sustainability and decisiveness were identified as the most important values by all the Board members.

Meetings
Most meetings of the Fund took place in digital form in 2021, unless the nature of the discussion called for a physical meeting.

Due to the volume of tasks, we have a number of administrative committees in place. These committees do preparatory and executive work. They can delve deeper into the background and implications of policy decisions in the preparatory phase. To have more time as a Board for strategic and policy issues, we have mandated various topics to committees. Our main rule is that policy issues are a Board matter and executive issues are the responsibility of the committees. The powers of a committee are set out in committee regulations. The committee is accountable to the full Board for the performance of its duties through annual plans, progress reports, committee self-assessment, committee meeting minutes and memoranda. The following committees were in place in 2021:

Day-to-day management
The day-to-day management consists of the chair and vice-chair of our Fund. They represent the Fund at law or otherwise. The day-to-day management takes everyday decisions within the formulated policy. In addition, the day-to-day management advises on those topics not already covered by other committees or working groups, and monitors progress. It also handles applications for voluntary affiliation, voluntary continuation and voluntary insurance. Furthermore, the day-to-day management may or may not authorise the collection of premiums under threat of an insolvency procedure and the filing of an insolvency petition. From 2022, the day-to-day management is also in charge of the management role in the WTP programme.

Investment Advisory Committee
We have delegated the preparation of the investment policy to the Investment Advisory Committee. This committee deals with the entire investment policy of the Fund and, from the first line, the risk policy regarding the asset management activities. The Investment Advisory Committee oversees the asset managers, including by monitoring and reviewing reports.

Communications and Pensions Committee
This committee advises on communication and pension policy and has a supervisory role regarding pension management. The Communications and Pensions Committee advises on and monitors pension management in terms of first-line outsourcing, IT, legal and underwriting risks. In 2022, this committee was split into a Communications Committee and a Pensions Committee.

Risk Committee
The Risk Committee represents the second line within the so-called ‘three lines of defence’ model and has an advisory, challenging and reviewing role towards the first line. In this role, the committee oversees the Board, the Investment Advisory Committee, the Communications and Pension Committee, the day-to-day management and the Executive Office, reviews recommendations of proposed decisions against the risk frameworks and provides the Board with solicited and unsolicited advice on risk management and outsourcing policy.

Annual report working group
We have an annual report working group in place. This working group coordinates work on the annual report and annual accounts.

Electoral Committee

In connection with the elections for a Board member on behalf of pension beneficiaries, we had a temporary electoral committee in place in 2021. This committee was staffed by the day-to-day management and was in charge of the practical organisation and implementation of the elections. The Electoral Committee also prepared amendments and updates to the electoral rules.

Complaints and Disputes Committee

We have drawn up a complaints and disputes procedure that is easily accessible to everyone and can be found on the website. Our aim is to improve the service provision of our Fund. If a complainant disagrees with a decision, they can take the complaint to the national Pensions Ombudsman or to the civil courts. The Complaints and Disputes Committee consists of three independent members: Ms L. Berrich (chair), Mr B. J. Bodewes and Mr F. Prins. The regulations can be found on the website. The Complaints and Disputes Committee did not process any cases in 2021. A complaint was received on 16 November 2021 regarding a divorce matter. This complaint was processed by the committee in 2022.

The Supervisory Board

The Supervisory Board is our internal regulator and oversees the policies and general affairs of our Fund alongside DNB. In addition, the Supervisory Board provides us with advice. The independent members always act in the interest of the objectives of our Fund, without any specific mandate and independently of any other interest. In exercising supervision, the Supervisory Board follows the Code of Dutch Pension Funds and the VITP standards framework. In doing so, the Supervisory Board pays specific attention to the concepts of due care and balanced consideration of interests. A term of office has a duration of four years, with one possible reappointment.

The composition of the Supervisory Board as of 31 December 2021 is as follows:

Members	Appointed until
Mr M. A. Bongers (1956)	1 July 2022
Mr P. G. E. van Gent (1963)	1 July 2025
Ms H. G. I. M. Peters (1959), chair	1 July 2025

We appointed Mr Van Gent as a member of the Supervisory Board from 1 July 2021 on the binding nomination of the Accountability Body. He succeeded Mr Frentrop who stepped down as a member of the Supervisory Board after seven years. We thank Mr Frentrop for his critical view towards the Fund. He was involved in our Fund from the establishment of the Supervisory Board on 1 July 2014. The Accountability Body made a binding nomination in Ms Peters for a second and final term. We appointed her for a second term.

The Accountability Body

Through the Accountability Body, we render account to stakeholders for the policy, how the policy has been pursued and compliance with the Code of Dutch Pension Funds. The Accountability Body is authorised to give an opinion on our actions, the policy pursued and on the policy choices for the future. It does so on the basis of the annual report, defined policy choices and the findings of the Supervisory Board on the policies pursued, among other things. The Accountability Body must establish the extent to which the Board has taken the interests of all stakeholders in the Fund in a balanced manner when making its decisions into account.

As of 31 December 2021, the Accountability Body is composed as follows:

Members employers	Appointed by	Appointed until
Ms E. Borgert (1981)	BNA	1 January 2026
Mr G. J. Groeneveld, chair (1962)	BNA	1 July 2022
Members pension beneficiaries		
Mr B. van den Bos, vice-chair (1950)	ANBO	1 November 2023
Mr T. Termond (1946)	De Unie	1 January 2022
Members active participants		
Ms D. Verweij (1982)	CNV	1 November 2025
Mr S. Vink (1979)	FNV	1 January 2023

Members of the Accountability Body are appointed by the Board in accordance with the Code of Dutch Pension Funds. We amended the regulations in 2021 on this subject since appointment was previously made by the social partners. A term of office has a duration of four years, with one possible reappointment. We are pleased to welcome Ms Verweij and Mr Kuijt to the Accountability Body. We thank Mr Termond and Ms Borghuis for their long-standing commitment to our Fund.

In connection with the upcoming resignation of Mr G. J. Groeneveld on 1 July 2022, we appointed Ms W. Vester as a new member of the Accountability Body as of the same date. We are delighted that she can already join the Accountability Body as a listener. With three new members on the Accountability Body, we have made time and money available to bring them to the desired level of knowledge in the foreseeable future. In doing so, we create countervailing power within the bodies.

In connection with the elections for an Accountability Body member on behalf of pension beneficiaries, a temporary electoral committee was set up in 2021. This committee was staffed by Ms Borgert and Mr De Vaan. The committee was in charge of the practical organisation and implementation of the elections. The electoral committee was dissolved during the process as only one suitable candidate stood for election.

5.2 Remuneration policy bodies

We have established a controlled and sustainable remuneration policy that is in line with our Fund's objectives and appropriate within our sector. The remunerations are proportionate to the responsibility, job requirements and time spent. We believe it is important to do justice to the expertise, professionalism and time spent of the members of our Fund's bodies. We have based the remuneration for the Board, the Supervisory Board and the Accountability Body on a fixed annual amount. As a result, costs are manageable and predictable and can be explained. We updated the remuneration policy in 2021 to comply with the SFDR directive. These were textual adjustments. Remuneration levels were not adjusted.

We believe it is important that the Accountability Body is a solid discussion partner and has sufficient pension knowledge. In deviation from the other bodies, members of the Accountability Body therefore receive an allowance of €400 per study day for attending SPO modules for Governance A level.

No VAT is charged on the amounts mentioned. On 6 May 2021, the Dutch State Secretary of Finance published a decree to the effect that Board members, members of the Supervisory Board and members of the Accountability Body are no longer regarded as entrepreneurs for VAT purposes. An important consideration here was that they do not bear individual responsibility but operate as a body.

Reimbursement of travel expenses for all the members is €0.40 per kilometre driven. In the following overview, we indicate how this worked out per individual member. The annual fees for Mr Frentrop, Mr Van Gent, Ms Borghuis and Ms Verweij relating to entry and exit during the year under review were not paid in full.

We pay the trainee we appointed from Pensioenlab €400 per month as remuneration.

Annual fee per position (in euros, excluding VAT)	Period	FTE	Paid 2021	Annual fee 2021	Annual fee 2020	Hourly rate
H. W. T. de Vaan, chair	01/01 until 31/12	0.3	46,080	46,080	46,080	80
G. T. J. Meulenbroek, vice-chair	01/01 until 31/12	0.3	46,080	46,080	46,080	80
J. G. E. van Leeuwen, deputy chair	01/01 until 31/12	0.2	21,440	21,440	21,440	80
I. Slikkerveer	01/01 until 31/12	0.2	21,440	21,440	21,440	80
M. M. E. P. Groenen	01/01 until 31/12	0.2	30,720	30,720	30,720	80
R. G. Nagtegaal, deputy vice-chair	01/01 until 31/12	0.2	30,720	30,720	30,720	80
A. Soederhuizen	01/01 until 31/12	0.2	38,600	38,600	38,600	100
P. de Groot	01/01 until 31/12	0.2	38,600	38,600	38,600	100
H. G. I. M. Peters, chair	01/01 until 31/12	0.2	22,500	22,500	22,500	80
P. M. L. Frentrop	01/01 until 01/07	0.1	7,500	15,000	15,000	80
M. A. Bongers	01/01 until 31/12	0.1	15,000	15,000	15,000	80
P. G. E. van Gent	01/07 until 31/12	0.1	10,000	15,000	N/A	80
G. J. Groeneveld, chair	01/01 until 31/12	N/A	13,950	13,950	13,950	50
T. Termond	01/01 until 31/12	N/A	9,300	9,300	9,300	50
E. Borgert	01/01 until 31/12	N/A	9,300	9,300	9,300	50
B. van den Bos	01/01 until 31/12	N/A	9,300	9,300	9,300	50
D. Borghuis	01/01 until 01/07	N/A	4,650	9,300	9,300	50
S. Vink	01/01 until 31/12	N/A	9,300	9,300	9,300	50
D. Verweij	01/11 until 31/12	N/A	1,550	9,300	N/A	50

5.3 Executive Office

We have an independent Executive Office in place. However, as Board, we always remain in charge ourselves as the body ultimately responsible. The Executive Office plays a central role in policy preparation, monitoring and support. In addition, the Executive Office keeps us informed of social developments and legislative and regulatory developments. The Executive Office is responsible for preparing and implementing Board decisions. The Executive Office also supports the Supervisory Board and the Accountability Body in the performance of their duties, and the Executive Office performs the Fund's secretarial services. From 2022, the director of the Executive Office is the line manager of the WTP programme.

5.4 Outsourcing

We have an outsourcing agreement with APG DWS & Fondsenbedrijf N.V. as regards the financial pension administration and with BMO Global Asset Management, PGGM Vermogensbeheer B.V., Syntrus Achmea Real Estate & Finance and Bouwinvest Real Estate Investment Management B.V. as regards the asset management.

6 Supervisory Board

In accordance with Article 15 of its Articles of Association, the Fund has had a Supervisory Board in place since 1 July 2014. On 1 January 2021, the Supervisory Board consisted of Mr M. A. Bongers (Risk), Mr P. M. L. Frentrop (Asset Management) and Ms H. G. I. M. Peters (Governance). On 1 July 2021, Mr P. G. E. van Gent succeeded Mr Frentrop. Mr Van Gent participated in the Supervisory Board meetings from 1 February 2021 as part of onboarding.

The Supervisory Board has the task of supervising the policy conducted by the Board and the general course of events within the Fund. Important components are the monitoring of adequate risk management and balanced consideration of interests by the Board. The Supervisory Board also forms an opinion on the Board's performance.

The Supervisory Board considers it as its task to contribute to the quality and effectiveness of the Fund's governance, management and operations with integrity. Therefore, in addition to supervision, the Supervisory Board also provides the Board with solicited and unsolicited advice.

Based on its statutory and regulatory duties, and its duties under the Articles of Association, the Supervisory Board paid particular attention to the following policy supervision topics in 2021:
- Communication with the stakeholders;
- The pension agreement project, the new pension scheme and the outsourcing of guidance to APG in phase 1;
- The IORP ll governance;
- The audit plan;
- The performance of the Board;
- The (re)appointments;
- The Sustainable Finance Disclosure Regulation (SFDR).

The scope of supervision by the Supervisory Board covers the entire governance spectrum with the following topics for which the Supervisory Board also made recommendations:
- General policy and Board performance;
- Governance;
- Financial set-up;
- Investment policy and asset management;
- Outsourcing and IT;
- Communication and transparency;
- Risk management;
- Internal Audit.

The Supervisory Board gave the following regulatory approvals in 2021:
- The Board's proposed resolution to adopt the annual accounts and annual report for the year 2020. The Supervisory Board believes the Board provides adequate insight into governance issues in the Board report.
- The proposed decision to appoint Mr G. T. J. Meulenbroek as chair on behalf of employers.
- The proposed decision to appoint Ms M. G. Groenen for a second term on behalf of employers.
- The proposed decision to appoint Mr R. G. Nagtegaal for a third and final term on behalf of employers.
- The proposed decision to appoint Mr I. Slikkerveer for a second term on behalf of the pension beneficiaries.

In addition, the Supervisory Board adopted its own profile and agreed to amend the remuneration policy due to SFDR regulations and the appointment of two new members of the Accountability Body.

The Supervisory Board's conclusion is that the Board has adequately discharged its duties and responsibilities in which it considered the interests of the various stakeholders in order to achieve a balanced consideration of interests, business integrity and adequate risk management.

The Supervisory Board acknowledges the efforts of the Board, the Accountability Body, the staff of the Executive Office and all the other stakeholders and the open dialogue and pleasant cooperation in 2021, despite all COVID-19 restrictions and meeting in digital form.

The Supervisory Board thanks Mr Frentrop for his expert and committed contribution to the Fund in the past years, warmly welcomes Mr Van Gent to the Fund and looks forward to a fruitful cooperation.

Culemborg, 16 March 2022

Mr *drs*. M. A. Bongers *RE RA CBM*
Mr *ir*. P. G. E. van Gent
Ms *mr.* H. G. I. M. Peters *RBA, CPE* (chair)

Board response

We thank the Supervisory Board for its pleasant cooperation and the close commitment its members show the Fund. We highly value the recommendations from the Supervisory Board. The report of findings brought together the points from the dialogue between Board and Supervisory Board over the past year. We appreciate the constructive and committed way in which the Supervisory Board monitors and assesses our work and acts as a sparring partner. We look forward to working together in the coming years.

7 Accountability Body

In accordance with Article 14 of the Articles of Association of Stichting Pensioenfonds voor de Architectenbureaus, the Accountability Body came into effect on 1 July 2014 as successor to the Participants' Council, which was dissolved in June 2014. In doing so, the Accountability Body has been given additional tasks and powers.

In the first six months of 2021, the Accountability Body consisted of Ms E. Borgert, Ms D. Borghuis, Mr B. van den Bos, Mr G. J. Groeneveld, Mr T. Termond and Mr S. Vink. Due to the expiry of Ms D. Borghuis' second term, she was succeeded by Ms D. Verweij with effect from November 2021. Due to the expiry of Mr T. Termond's second term, he was succeeded by Mr M. Kuijt in January 2022.

In 2021, the Accountability Body met twelve times, including three times in the presence of a representative of the Board. Three meetings were held with the Supervisory Board and three were held by the chairs of the bodies. There were three seminars for the Accountability Body in 2021, two of them together with the Board and the Supervisory Board. The Accountability Body also met once with the Annual Report working group. Due to the Covid-19 measures, meetings have largely taken place in digital form.

In 2021, a delegation of the Accountability Body started a selection procedure to fill an upcoming vacancy on the Supervisory Board from 1 July 2022.

Through the annual report and via the Accountability Body, the Board renders account to the stakeholders for the policy, how the policy has been pursued and for compliance with the Code of Dutch Pension Funds. The Accountability Body noted that the Board acted on a large part of its recommendations in 2021.

The Accountability Body is authorised to give an opinion on actions of the Board, the policy pursued and the policy choices for the future. The Accountability Body does so, among other things, on the basis of the annual report, defined policy choices and the findings of the Supervisory Board. The Accountability Body establishes the extent to which the Board has taken the interests of all stakeholders in the Fund in a balanced manner when making its decisions into account.

The Accountability Body gave eight recommendations in 2021. These covered the following topics:

Subject	Period	Nature of recommendation
1. Adjustment of the 2021 supplement policy and supplement resolution	January 2021	Positive
2. Amendment to the Pension Administration Regulations	January 2021	Positive
3. Amendment to the Remuneration Policy	February 2021	Positive
4. Amendment to the Accountability Body Regulations January 2021	March 2021	Positive
5. Amendment to the Accountability Body Regulations July 2021	May 2021	Positive
6. Amendment to the Supervisory Board profile	November 2021	Positive
7. Supplement resolution 2022	November 2021	Positive
8. Composition of the factual premium and the amount of the premium components 2022	November 2021	Positive

The Supervisory Board has rendered account to the Accountability Body. Based on the 2021 report of findings of the Supervisory Board for the Board and the Accountability Body, the Accountability Body took note of the findings and recommendations of the Supervisory Board.

Our full report with the standards framework, findings, opinion and recommendations can be found on the website. Below is an abridged account of our opinion for each standard:

Governance: The Accountability Body notes that the Board functioned well and proactively in 2021, always having a critical eye for where additions to the Board or improvements to the governance structure are necessary or desirable. The staffing of governing bodies and key role holders was well filled in 2021. The vacancies have been filled. Communication between the various bodies is respectful and helpful. The Accountability Body recommends continued attention to the integral responsibility of the entire Board, given the important choices concerning the WTP.

Outsourcing: The Accountability Body believes that, despite a number of issues, the Board is in control and closely monitors external parties including the associated quality and costs.

Premium policy: The Accountability Body has come to the conclusion that both the cost components used and a balanced consideration of interests have been adequately taken into account in establishing the 2021 premium. The Accountability Body recommends that the Board continue to monitor the quality of communication regarding this issue to participants.

Asset management: The Accountability Body confirms that the investment process was carried out in line with the investment policy and principles as set out in the Fund's Investment Plan and Investment Guidelines. The Accountability Body recommends that the Board give timely consideration to the potential impact of the WTP on asset management. The Accountability Body also recommends making the fact that the Fund is committed to socially responsible investing more visible to participants.

Supplements: The Accountability Body takes a positive view of the granting of the maximum supplement of 1.20% from 1 January 2022, which can be financed on a permanent basis from the assets above a policy funding ratio of 110% in line with the Fund's supplement policy and based on the legislation in 2021. In doing so, the Board took into account a balanced consideration of all interests of those involved in the Fund. The Accountability Body recommends that, when granting a supplement as of 1 January 2023, account be taken of the legislative proposal as of 1 January 2022 in which it is allowed to index pension entitlements from a policy funding ratio of 105%, taking into account a balanced consideration of interests in the new pension contract in accordance with the WTP.

Integrated risk management: The role of the Risk Committee and the key function holder Risk Management and Actuarial and Compliance has been further developed and this is reflected in relationship and cooperation with and advice to the Board and the various committees. The proactive policy is evident in the issues raised, recommendations and questions asked during the past year.

Communication: The development of the communication policy showed that many participants are still not being reached. The Accountability Body recommends the Board to pay even more attention to reaching participants digitally and to take a proactive stance regarding mutual communication with participants.

Future: The Accountability Body noted that the Board reserves sufficient time to discuss strategic issues, including the future, with each other. The Board has taken an active stance, including towards social partners, in the transition to the possible new pension contract. The Board has followed the recommendation from the Accountability Body's 2020 assessment by also looking at the future of the Fund.

The Accountability Body appreciates the commitment of the Board and the Supervisory Board. Mutual cooperation between the Board, Supervisory Board and Accountability Body takes place with an open and constructive attitude. The Accountability Body looks forward with confidence to the cooperation for the coming year.

Harderwijk, 6 May 2022

E. Borgert

B. van den Bos (vice-chair)

G. J. Groeneveld (chair)

M. Kuijt

D. Verweij

S. Vink

Board response

We thank the Accountability Body for this management summary and concur with your words about the pleasant cooperation. Your input in our discussions and your recommendations are highly appreciated and add value to our administrative decision-making. We would also like to continue this cooperation with you in the coming years. We welcome your views. In it, we read appreciation for the work we have done and the results achieved. This inspires us to continue on the path we have taken, but we also take your critical notes to heart.

II. Annual accounts

In this chapter, the Board of Stichting Pensioenfonds voor de Architectenbureaus presents the annual accounts for the 2021 financial year ending on 31 December 2021. The Other Information section contains the statements of the certifying actuary and the independent auditor of the pension fund.

1 Balance sheet as at 31 December

(After appropriation of the balance of income and expenditure, amounts in thousands of euros)

		31-12-2021	31-12-2020
ASSETS			
Investments at the risk of the pension fund	(1)		
Property investments		431,404	395,171
Equities		2,389,475	2,063,702
Fixed-interest securities		2,656,438	2,940,721
Derivatives		307,499	577,902
Other investments		189,628	115,111
		5,974,444	**6,092,607**
Receivables, prepayments and accrued income	(2)	6,582	7,867
Cash at bank and in hand	(3)	10,861	15,139
		5,991,887	**6,115,613**
LIABILITIES			
Foundation capital and reserves	(4)	1,071,284	600,917
Technical provisions at the risk of the pension fund	(5)	4,616,283	4,927,192
Other liabilities, accruals and deferred income	(6)	304,320	587,504
		5,991,887	**6,115,613**

	31-12-2021	31-12-2020
Funding ratio based on FTK (in %)		
Current funding ratio (in %)	123.2	112.2
Policy funding ratio	118.8	105.1

2 Statement of income and expenditure

(Amounts in thousands of euros)

		2021	2020
INCOME			
Premium contributions at the risk of the pension fund (from employers and employees)	*(7)*	64,792	60,246
Investment results at the risk of the pension fund	*(8)*	212,610	601,966
Other income	*(9)*	580	23
		277,982	**662,235**
EXPENDITURE			
Pension benefit payments	*(10)*	114,236	111,849
Pension administration costs	*(11)*	3,947	3,602
Movement technical provisions at the risk of the pension fund	*(12)*		
Pension accrual		90,225	84,124
Granting of supplements		54,475	-
Interest addition		-26,155	-14,436
Withdrawal for pension benefits and pension administration costs		-117,197	-114,399
Change in market interest rates		-314,819	607,057
Movement in actuarial assumptions		-1,501	-104,108
Change from transfer of rights		-246	-2,067
Other movements in technical provisions		4,309	36
		-310,909	**456,207**
Balance of transfers of rights	*(13)*	295	1,492
Other expenditure	*(14)*	46	44
		-192,385	**573,194**
Balance of income and expenditure		**470,367**	**89,041**

Appropriation of the balance of income and expenditure

(Amounts in thousands of euros)

	2021	2020
General risks reserve	517,562	28,230
Volatility reserve	-47,195	60,811
	470,367	**89,041**

3 Cash flow statement

(Amounts in thousands of euros)

		2021	2020
Cash flow from pension activities			
Premium contributions received for the risk of the pension fund		65,609	58,818
Incoming value transfers		3,096	2,787
Other income received		580	23
Pension benefits paid		-114,165	-111,811
Outgoing value transfers		-2,801	-4,780
Pension administration costs paid		-3,605	-3,486
Other expenses paid		-46	-44
Total cash flow from pension activities		**-51,332**	**-58,493**
Cash flow from investment activities			
Received on investments sold		1,640,452	1,495,303
Paid on investments acquired		-1,393,925	-1,687,248
Direct investment returns received		56,900	58,134
Other income and expenditure on investments		30,214	-24,140
Change in cash collateral		-282,309	228,662
Asset management fees paid		-4,278	-4,341
Total cash flow from investment activities		**47,054**	**66,370**
Movements in cash at bank and in hand		**-4,278**	**7,877**

		2021	2020
Cash at bank and in hand as at 1 January		15,139	7,262
Movement in funds		-4,278	7,877
Cash at bank and in hand as at 31 December	*(3)*	**10,861**	**15,139**

4 General explanatory notes

General explanatory notes

Introduction

The objective of Stichting Pensioenfonds voor de Architectenbureaus, registered in the Dutch business register under number 41199584, having its registered office in Harderwijk (hereinafter referred to as 'the pension fund') is to provide benefits now and in the future to pensioners and surviving relatives in respect of old age and death; the pension fund also provides benefits to occupationally disabled participants and former participants. This objective is detailed in the pension fund's Articles of Association, pension regulations, pension administration agreement and Actuarial and Technical Business Memorandum, among other things. The pension fund implements the pension scheme of the compulsorily affiliated employers in the architectural sector.

The Fund's business address is Ceintuurbaan 2, 3847 LG Harderwijk.

Declaration of conformity

The annual accounts have been prepared in accordance with the statutory provisions as set out in Title 9, Book 2 of the Dutch Civil Code and in compliance with the Accounting Standards, in particular RJ 610. The amounts included in the annual accounts have been stated in thousands of euros unless indicated otherwise.

The Board adopted the annual accounts on 8 June 2022.

Going concern

The annual accounts were prepared on the going concern basis of accounting.

Comparison with the previous year

The principles of valuation and determination of results compared to the previous year remained the same, *with the exception of the change in the accounting estimate explained below*.

Changes in accounting estimates

Changes in accounting estimates of pension liabilities at the risk of the pension fund

<u>Interest rate term structure</u>
Since 2012, DNB's interest rate term structure (RTS) for pension funds has been determined using the Ultimate Forward Rate

(UFR). The UFR was based on the (moving) 120-month average of the 20-year forward rate until 31 December 2020. In 2019, the Parameters Committee recommended adjusting the UFR method in which the UFR is based on the (moving) 120-month average of the 30-year forward rate. DNB has decided to introduce this new UFR method in four equal annual steps from 1 January 2021. The change to the UFR method concerns a change in the accounting estimate of the provision for pension liabilities for the risk of the pension fund. The effect of the first step of the UFR change on 1 January 2021 causes an increase in the provision of €75.1 million and is part of the change in Movement market interest rate.

<u>Orphan's pension supplement</u>
With regard to 2021 reporting year, the Board decided to a change of the assumptions used, actuarial and otherwise, to determine the provision for pension liabilities. This concerns a reduction of the supplement for orphans' pensions on the provision for co-insured partner’s pensions (of non-pension beneficiaries) from 0.8% to 0.5%. The effect of the change in accounting estimates on the provision for pension liabilities is a release of the provision in the amount of €1.5 million.

General principles

Recognition of an asset or liability

An asset is recognised in the balance sheet when future economic benefits are likely to accrue to the pension fund in and its value can be measured reliably. A liability is recognised in the balance sheet when its settlement is likely to involve an outflow of resources and the amount thereof can be measured reliably.

Recognition of income and expenditure

Income is recognised in the statement of income and expenditure when an increase in the economic potential, related to an increase in an asset or a reduction in a liability, has occurred, the magnitude of which can be measured reliably. Expenditure is recognised when a reduction in the economic potential, related to a reduction in an asset or an increase in a liability, has occurred, the magnitude of which can be measured reliably.

Netting of an asset and a liability

A financial asset and a financial liability are netted out and recognised as a net amount in the balance sheet if there is a statutory or contractual authority to settle the asset and liability simultaneously and netted out, and, moreover, if there is an intention to settle the items in this way. Interest income and interest expenditure associated with netted financial assets and financial liabilities are also netted out.

Estimates and assumptions

In accordance with Title 9, Book 2 of the Dutch Civil Code, the preparation of the annual accounts requires the Board to form opinions and make estimates and assumptions that affect the application of accounting principles and the reported values of assets and liabilities, and of income and expenditure.

The estimates and related assumptions have been based on past experience and various other factors that are deemed reasonable given the circumstances. The results provide the basis for the opinion on the carrying value of assets and liabilities that is not readily apparent from other sources. Actual outcomes may differ from these estimates.

Estimates and underlying assumptions are assessed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods, if the revision affects both the reporting period and future periods.

Recognition of movements in the value of investments

No distinction is made between realised and unrealised movements in the value of investments. All the movements in the value of investments, including transaction costs, fees, exchange rate differences, and so on, are recognised as indirect investment returns in the statement of income and expenditure.

Foreign currencies

A foreign currency transaction is valued on initial recognition at the functional exchange rate on the transaction date. Assets and liabilities denominated in foreign currencies are converted into euros at the exchange rate on the balance sheet date. This valuation is part of the fair value measurement. Income and expenditure arising from transactions in foreign currencies are converted at the exchange rate on the transaction date. All the foreign exchange differences are recognised in the statement of income and expenditure as indirect investment returns.

Principles for the valuation of assets and liabilities

Investments at the risk of the pension fund

In general

The investments are valued at fair value; only if the fair value of investments cannot be reliably determined, valuation is based on amortised cost. Prepayments and accrued income, and accruals and deferred income as well as cash asset management have been valued at nominal value, and are included in the investments. For these assets and liabilities, the difference between fair value and nominal value is generally minor.

Units in investment funds and investment institutions specialising in a particular type of investments are classified and valued according to the principles for those underlying investments (look-through approach). Mixed investment funds are aligned with the main class, determined on a fair value basis.

Financial instruments are used to hedge investment risks and achieve the defined investment policy. Positions in derivatives have been recognised as a separate investment class. Derivatives that are part of an investment fund are recognised in the investment class in which this investment fund is classified.

Fair value

The pension fund's investments are valued at fair value on the balance sheet date. Certain instruments, such as investment fund units, are valued using the net asset value. It is customary and possible to determine the fair value within an acceptable range of estimates. Only if the fair value of investments cannot be reliably determined, valuation is based on amortised cost. Quoted market prices can be used for some of the pension fund's financial instruments. Derivatives are valued using net present value calculations.

For financial instruments, such as investment receivables and debts, the carrying value approximates the fair value due to the short-term nature of the receivables and debts. The carrying values of all the assets and financial liabilities as at the balance sheet date approximate the fair value.

Property investments

Investments in direct property are measured at fair value. The fair value is based on periodic valuations carried out by independent experts.

Listed indirect property investments are valued at the stock market value on the balance sheet date. Unlisted (indirect) property investments are valued at the net asset value calculated at the end of the reporting period. The net asset value is derived from the most recent statements of the relevant fund managers based on local principles which assume valuation at market value.

Equities

Equity investment funds

Units in listed investment institutions are valued at the stock market price as at the balance sheet date. Units in investment funds in listed equities are valued at the last known stock market price at the end of the reporting period. Units in investment funds in unlisted equities are valued at the net asset value calculated at the end of the reporting period. The net asset value is derived from the most recent statements of the relevant fund managers based on local principles which assume valuation at market value.

Private equity

Units in unlisted investment funds investing in private equity are valued at the share of the net asset value of the investment fund. The net asset value of the investment fund is estimated by the external manager, the management of the relevant investment or the lead co-investor.

Fixed-income securities

Fixed-income securities are measured at fair value including accrued interest. For listed fixed-income securities, this is the stock market price on the balance sheet date. For unlisted units in fixed-income securities funds, this is the net asset value, which represents the fair value of the underlying investments.

Bonds

Listed bonds and units in listed investment institutions investing in bonds are valued at the stock market price on the balance sheet date. Units in unlisted investment funds investing in bonds are valued at the net asset value of the bond investment fund.

Mortgages

Units in investment funds investing in mortgage loans are valued at fair value. The fair value is calculated based on the present value of the future cash flows. The parameters used in this calculation were updated at the end of the financial year.

Loans on promissory note

Loans on promissory note are valued at fair value. This fair value is calculated on the present value of the future cash flows. The interest rates used for discounting were derived from external independent parties and depend on the credit risk of the counterparties.

Derivatives

Derivatives are measured at fair value, which is the relevant market quotation or, if there is none, the value determined using market-based and verifiable valuation models. Derivative contracts with a negative value are recognised in the balance sheet under other liabilities and accruals and deferred income.

Other investments

Other investments are valued at fair value. These are valued at net asset value, which represents the fair value of the underlying investments.

Infrastructure

The value of investments in infrastructure funds is derived from the most recent statements of the relevant fund managers based on local principles.

Money market funds

The money market funds are measured at fair value, being the pension fund's share of the fair values of the financial instruments held by BMO Asset Management Netherlands bv at the account and risk of its clients.

Receivables, prepayments and accrued income

Receivables, prepayments and accrued income are valued at fair value upon initial recognition. After initial recognition, receivables are measured at amortised cost, equal to the nominal value if no transaction costs are incurred, less any impairment losses, if there is a possibility of irrecoverability.

Other assets

Other assets include cash at bank and in hand to the extent that these are bank balances payable on demand. Cash at bank and in hand are valued at nominal value. They are distinguished from balances related to investment transactions.

Cash in bank and at hand and cash equivalents from investment transactions are presented under the investments.

Foundation capital and reserves

General risks reserve

This reserve is the part of the capital that remains after the required reserves have been brought to the desired level through profit appropriation, and serves to absorb financial setbacks other than those for which a specific reserve or provision, respectively, has been made. The aim is to hold reserves in total at least equal to the stated equity capital requirement based on the Financial Assessment Framework (FTK). The stated equity capital requirement is determined based on the standard method prescribed by De Nederlandsche Bank (DNB). The general risks reserve is not capped.

Volatility reserve

The volatility reserve equals the equity capital requirement needed in an equilibrium. DNB's standard test determines the size of the equity capital requirement.

Technical provisions at the risk of the pension fund

Provision for pension liabilities at the risk of the pension fund

The provision for pension liabilities is the present value, calculated on actuarial principles, of the pension entitlements to which rights have been acquired under the regulations as at the balance sheet date. The calculated provision relates only to the Fund's unconditional pension liabilities. Furthermore, no account has been taken of pension liabilities arising from future salary increases.

The calculations were carried out on the following actuarial principles and assumptions:

Fictitious interest rate

The market interest rate is the fictitious interest rate. The market interest rate corresponds to the interest rate term structure at the end of the financial year as published by DNB.

Survival tables

The provision at the end of 2021 was calculated based on the Projections Life Table AG2020 published by the Royal Dutch Actuarial Association (*Koninklijk Actuarieel Genootschap*), start column 2022 (2020: Projections Life Table AG2020, start column 2021). Here, mortality experience is taken into account by multiplying mortality probabilities by age-dependant and gender-dependent adjustment factors.

At age 67, for instance, the adjustment factor for males is 75% and 80% for females. For co-insured persons, the adjustment factor at age 67 is 70% for males and 83% for females. After age 67, these adjustment factors gradually increase to 100% at age 100.

No mortality rates have been considered for the orphans.

Partner frequency

For males and females, partner frequencies are set separately based on 2016 marriage rates of Statistics Netherlands.

For deferred partner's pension in addition to deferred retirement pension, the partner frequency for males is 0.00 at age 17, then increasing to 0.80 at age 67 and is set at 100% when the retirement pension commences at age 67.

For deferred partner’s pension in addition to deferred retirement pension, the partner frequency for females is 0.00 at age 17, then increases to 0.76 at age 36, is 0.76 for ages 37 to 42, then decreases to 0.70 at age 67 and is set at 100% when the retirement pension commences at age 67.

For deferred partner's pension in addition to retirement pension in payment, the particular system is used, where a present value is calculated only for partners present.

Male-female age difference

The male is assumed to be three years older than the female.

Loading for disbursement costs

The technical provision includes a loading for disbursement costs of 2.9% (2020: 2.9%).

Provision for extension risk Non-Contributory Participation

The non-contributory participation extension risk provision is calculated as the sum of the non-contributory participation loadings of the last two financial years. This will make the non-contributory participation loading of the second financial year available annually to cover the costs of the start of the premium waiver due to the onset of occupational disability for participants with a first day of illness during the second financial year.

Savings fund conscientious objectors

The pension fund may grant individual exemption from participation in the compulsory pension schemes to an employee if they have conscientious objections to any form of insurance. The employer owes a savings contribution to the pension fund. This savings contribution equals the premium that would have been charged to the employer if no exemption had been granted. Under the collective labour agreement, 45% of the savings contribution is borne by the employee. Savings contributions are deposited in a notional savings account, to which interest is added annually. Until the commencement of the pension replacement benefit, this interest equals the moving average return on the pension fund's investments over the last five financial years less 0.5% and subsequently rounded down to a multiple of 0.25%. The saved contributions of the conscientious objector are paid to the person concerned in equal instalments for 15 years of reaching the age of 67. In the event of the death of the conscientious objector before the payment of benefits commences, the balance is paid to the partner in equal instalments for 15 years. In case of death of the conscientious objector after commencement of the benefits, the benefits continue for the benefit of the partner for the remaining period.

Other liabilities, accruals and deferred income

Other liabilities, accruals and deferred income are valued at fair value upon initial recognition. After initial recognition, liabilities are measured at amortised cost, equal to the nominal value if no transaction costs are incurred.

Funding ratio

The current funding ratio (hereinafter referred to as the funding ratio) is calculated as follows:

$$\frac{\text{Assets present}}{\text{Technical provisions}} \times 100\%$$

In this calculation, the assets present consist of all the assets less other liabilities and accruals and deferred income.

Under the FTK, the policy funding ratio is the guiding principle for all the policy measures. The policy funding ratio is the average of the funding ratio over the past 12 months and is therefore less dependent on daily rates.

Principles for the determination of the result

In general

Income and expenditure are allocated to the financial year to which they relate. The items included in the statement of income and expenditure are significantly related to the valuation principles used in the balance sheet for investments and the technical provisions. Both realised and unrealised results are recognised directly in the result.

Premium contributions at the risk of the pension fund (from employers and employees)

Premium contributions mean amounts charged or to be charged to third parties for the pensions insured in the reporting year less discounts. Premiums have been allocated to the period to which they relate.

Returns on investments

Direct investment returns

Direct investment returns in this context mean interest income and interest charges, dividends and similar income. Dividends are recognised at the time they become available for payment.

Indirect investment returns

Indirect investment returns refer to realised and unrealised movements in value and foreign exchange results. No distinction is made in the annual accounts between realised and unrealised movements in the value of investments. All the movements in the value of investments, including exchange rate differences, are recognised as indirect investment returns in the statement of income and expenditure. Acquisition costs are included in the fair value of the investments. Selling costs are recognised as part of the value movements.

Asset management costs

Asset management costs consist mainly of management and custody fees. These are just the costs paid by the Fund itself. Income-related transaction costs, fees, exchange rate differences, and so on, are offset against direct and indirect investment income.

Pension benefit payments

Pension benefits refer to the amounts paid to pension beneficiaries including commutations. The pension benefits have been determined on actuarial principles and allocated to the reporting year to which they relate.

Pension administration costs

The pension administration costs have been allocated to the period to which they relate.

Movement technical provisions at the risk of the pension fund

Pension accrual

Pension accrual is the present value of pension entitlements granted during the financial year. This is the impact on the provision for pension liabilities of the nominal rights to retirement pension and partner's pension accrued during the year under review. It further includes the effect of individual salary development.

Interest addition

Pension liabilities are discounted at the nominal market interest rate based on the interest rate term structure published by DNB. The interest addition is calculated at the fictitious interest rate at the beginning of the financial year on the opening balance and movements during the year.

Withdrawal for pension benefits and pension administration costs

Expected future pension benefits are calculated in advance on the basis of actuarial principles and are included in the technical provision. The decrease in the provision recognised in this heading relates to the amount released for the purpose of funding pensions during the reporting period.

Annually, an amount of the loading for disbursement costs (2.9% for the current financial year) of the benefits paid in the year is released to finance the pension administration costs incurred (disbursement costs).

Change in market interest rates

Annually, on 31 December, the current value of the technical provisions is recalculated by applying the current interest rate term structure. The effect of the change in the interest rate term structure is accounted for under the heading 'Movement in market interest rates'.

Movement in actuarial assumptions

The determination of the provision for pension liabilities is an inherently uncertain process, using estimates and assessments by the Board. The actuarial principles and/or methods are assessed regularly and if necessary revised for the purpose of calculating the current value of the pension liabilities. This involves the deployment of internal and external actuarial expertise. Among other things, this includes the comparison of mortality, longevity and occupational disability assumptions with actual observations for both the entire population and the population of the pension fund in particular. The effect of changes is recognised in the result when the actuarial assumptions are revised.

Change from transfer of rights

This includes the transfer values attributable to the reporting year of the incoming and outgoing pension entitlements, with respect to the actuarial value.

Other movements in technical provisions

The changes in the provision recognised under this item relate to probability systems.

Balance of transfers of rights

The item ‘Balance of rights transfers’ includes the balance of amounts in respect of incoming or outgoing pension liabilities.

Other income and expenditure

Other income and expenditure are recognised for amounts attributable to the year under review.

Cash flow statement principles

The cash flow statement has been prepared in accordance with the direct method. All the receipts and expenditures are hereby presented as such. A distinction is made between cash flows from pension administration activities and from investment activities.

5 Explanatory notes to the balance sheet

(Amounts in thousands of euros, unless stated otherwise)

Assets

1. Investments at the risk of the pension fund

Overview of movements by investment class

2021	Property investments	Equities	Fixed-income securities	Derivatives	Other investments	Total
Position as at 1 January 2021	395,171	2,063,702	2,940,721	-6,699	115,111	5,508,006
Purchases	15,350	58,000	1,277,737	-	42,838	1,393,925
Sales	-7,838	-282,138	-1,405,369	56,218	-1,325	-1,640,452
Other movements	2,649	6,128	-58,241	281,179	20,241	251,956
Value movements	26,072	543,783	-98,410	-324,081	12,763	160,127
	431,404	**2,389,475**	**2,656,438**	**6,617**	**189,628**	**5,673,562**
Plus: Derivatives with a negative value	-	-	-	300,882	-	300,882
Position as at 31 December 2021	**431,404**	**2,389,475**	**2,656,438**	**307,499**	**189,628**	**5,974,444**

2020	Property investments	Equities	Fixed-income securities	Derivatives	Other investments	Total
Position as at 1 January 2020	380,092	1,915,655	2,546,935	15,798	113,930	4,972,410
Purchases	7,717	150,512	1,521,456	-	7,563	1,687,248
Sales	-154	-172,661	-1,248,501	-73,987	-	-1,495,303
Other movements	-548	-1,033	41,675	-236,579	-8,037	-204,522
Value movements	8,064	171,229	79,156	288,069	1,655	548,173
	395,171	**2,063,702**	**2,940,721**	**-6,699**	**115,111**	**5,508,006**
Plus: Derivatives with a negative value	-	-	-	584,601	-	584,601
Position as at 31 December 2020	**395,171**	**2,063,702**	**2,940,721**	**577,902**	**115,111**	**6,092,607**

According to the accounting principles, derivatives with a negative value are recognised under Other liabilities and accruals and deferred income; the Debt for collateral received is also recognised under Other liabilities and accruals and deferred income. The overview of movements for each investment class shows the netted movements of derivatives. In order to arrive at the positive value of the derivatives under the investments at the risk of the pension fund, the value of the negative derivatives and the debt for collateral received are added to the netted closing balance of the derivatives at the bottom of the table.

The Fund has no investments in affiliated organisations or contributory companies.

Other movements

Other movements relate to movements relating to investment debtors, investment creditors and cash under management at the asset managers.

Securities lending

The pension fund does not participate directly in securities lending. Securities lending does occur within the investment funds. The investment funds may make part of their investments available for securities lending. Based on look-through in the investment funds, securities lending is applicable. The size of the positions at the end of 2021 is €22,228 (2020: €19,568. Collateral obtained at the end of 2021 amounts to €23,506 (2020: €21,007).

Specific financial instruments (derivatives)

Financial derivatives are used to implement the investment policy. As a rule, derivatives are only used to the extent appropriate within the overall investment policy. The portfolio structure and risk profile, calculated including the economic effects of derivatives, should be within the range, i.e. limits, set by the Board.

The pension fund uses derivatives primarily to hedge the currency risk and interest rate risk. One of the main risks in derivatives is credit risk. This is the risk of counterparties being unable to meet their payment obligations. This risk is mitigated by only entering into transactions with reputable parties. Moreover, collateral is always used. We also use centrally cleared interest rate swaps for interest rate derivatives, with daily settlement.

Fair value

Investments are measured at fair value. Apart from investment debtors, investment creditors and cash, the pension fund's investments are measured at fair value on the balance sheet date. In general, it is possible and customary to determine the fair value within an acceptable range of estimates. The carrying values of all the assets and financial liabilities as at the balance sheet date approximate the fair value.

For part of the pension fund's investments, quoted market prices or valuations carried out by independent third parties may be used. However, certain investments have been measured using net present value calculations or other methods:

- Net asset value: the market value derived from the most recent reports of fund managers and fund-of-fund managers. For fund investments in property, private equity and infrastructure, the valuation is determined on the basis of the latest fund reports received. These reports have been audited by an independent auditor but the period of these reports is not synchronised with the pension fund's financial year. To mitigate this uncertainty, an annual reconciliation is made retrospectively. Investments of which the valuation is based on net asset value are included in the table under "Other method(s)". In addition, investment funds of which the Net Asset Value (NAV) is provided by an external party are accounted for under this method.
- Investments with quoted market prices are traded on a stock exchange or involve liquid assets. These include equities, bonds, collateral and bank deposits.
- The net present value (NPV) is determined by discounting the cash flows receivable using the prevailing market interest rate. The valuation takes into account the irrecoverability risk.

Valuation system used based on RJ 290

The tables below show the breakdown by valuation system used based on RJ 290 of the invested assets.

	Quoted market prices	Independent valuations	NPV calculations	Other method(s)	total
As at 31 December 2021					
Property investments	–	–	–	422,789	422,789
Equities	–	–	–	2,383,347	2,383,347
Fixed-interest securities	1,035,452	–	–	1,612,406	2,647,858
Derivatives	–	–	217,631	–	217,631
Other investments	–	–	–	169,388	169,388
Total	**1,035,452**	**-**	**217,631**	**4,587,930**	**5,841,013**

	Quoted market prices	Independent valuations	NPV calculations	Other method(s)	total
As at 31 December 2020					
Property investments	–	–	–	389,205	389,205
Equities	–	–	–	2,063,702	2,063,702
Fixed-interest securities	1,232,694	–	–	1,641,205	2,873,899
Derivatives	–	–	485,494	–	485,494
Other investments	–	–	–	115,111	115,111
Total	**1,232,694**	**-**	**485,494**	**4,209,223**	**5,927,411**

The fixed-income securities mentioned under quoted market prices are mostly government bonds.

Property investments

The property investments can be specified as follows:

specification by class	31-12-2021	31-12-2020
Indirect property	422,789	389,205
Invested values	**422,789**	**389,205**
Investment debtors	8,615	5,932
Cash at bank and in hand	–	34
	431,404	**395,171**

Equities

The equities can be specified as follows:

specification by class	31-12-2021	31-12-2020
Equity investment funds	2,334,975	2,020,780
Private equity	48,372	42,922
Invested values	**2,383,347**	**2,063,702**
Investment debtors	6,128	-
	2,389,475	**2,063,702**

Fixed-interest securities

Fixed-income securities can be specified as follows:

specification by class	31-12-2021	31-12-2020
Bond investment funds	1,336,741	1,408,438
Government bonds	824,042	916,940
Mortgage funds	487,048	548,468
Loans on promissory note	27	53
Invested values	**2,647,858**	**2,873,899**
Investment debtors	8,580	19,434
Cash at bank and in hand	-	47,403
Investment creditors	-	-15
	2,656,438	**2,940,721**

Derivatives

Derivatives can be specified as follows:

specification by class	31-12-2021	31-12-2020
Foreign exchange derivatives positive value	3,043	24,621
Interest rate derivatives positive value	293,282	540,977
Invested values	**296,325**	**565,598**
Investment debtors	11,174	12,304
	307,499	**577,902**

Interest rate derivative positions are settled on a daily basis. Cash collateral received on interest rate derivatives with a positive value is reinvested. For the explanatory note on collateral received on derivatives, we refer to the explanatory note on Other liabilities and accruals and deferred income.

Other investments

Other investments can be specified as follows:

specification by class	31-12-2021	31-12-2020
Infrastructure	169,388	115,111
Invested values	**169,388**	**115,111**
Cash at bank and in hand	20,240	-
	189,628	**115,111**

In order to carry out asset management, BMO Asset Management Netherlands bv holds bank accounts and money market instruments at the account and risk of the pension fund.

The beneficial ownership of said bank accounts and money market instruments lies with the pension fund and the legal ownership lies with BMO Asset Management Netherlands bv. At the end of the reporting period, the balance is €20,240 (year-end 2020: nil). In the annual accounts, this is recognised as Cash at bank and in hand/Money market funds under Other investments.

2. Receivables, prepayments and accrued income

	31-12-2021	31-12-2020
Receivables on employers	5,813	6,610
Prepaid expenses	726	743
Value transfers	23	448
Pensions	20	66
	6,582	**7,867**

The valuation of receivables takes the risk of irrecoverability into account by deducting a provision for this from the balance of outstanding receivables. For similar items with similar risks, losses and risks are jointly estimated at the balance sheet date.

All the accounts receivable have a remaining maturity of less than one year.

Further specification of receivables on employers:

	31-12-2021	31-12-2020
Employers	5,862	6,682
Provision for doubtful debts	-49	-72
	5,813	**6,610**

An amount of €23 was withdrawn from the doubtful debt provision in 2021 (2020: €68).

3. Cash at bank and in hand

	31-12-2021	31-12-2020
ABN AMRO	10,851	15,127
Citibank	5	7
ING	5	5
	10,861	**15,139**

Cash at bank and in hand includes the cash and balances in bank accounts that are payable on demand or in the short term. Bank accounts managed by asset managers are included under investments.

Year-end 2021, the Fund has a credit line with ING Bank nv of €4 million. It is not in use at the end of 2021.

Liabilities

4. Foundation capital and reserves

Overview of movements in equity capital

	Volatility reserve	General reserve	Total
Position as at 1 January 2021	893,082	-292,165	600,917
From appropriation balance of income and expenditure	-47,195	517,562	470,367
Position as at 31 December 2021	**845,887**	**225,397**	**1,071,284**

	Volatility reserve	General reserve	Total
Position as at 1 January 2020	832,271	-320,395	511,876
From appropriation balance of income and expenditure	60,811	28,230	89,041
Position as at 31 December 2020	**893,082**	**-292,165**	**600,917**

Solvency

	31-12-2021	in %	31-12-2020	in %
Pension capital	5,687,567	123.2%	5,528,109	112.2%
Less: technical provisions	4,616,283	100.0%	4,927,192	100.0%
Equity capital	1,071,284	23.2%	600,917	12.2%
Less: equity capital requirement	845,887	18.3%	893,082	18.1%
Freely available assets	225,397	4.9%	-292,165	-5.9%
Minimum equity capital requirement	194,462	4.2%	205,920	4.2%
Funding ratio		123.2%		112.2%
Policy funding ratio		118.8%		105.1%

The pension fund uses the standard model for determining the equity capital requirement, the solvency test. The Board considers the use of the standard model appropriate for the pension fund's risks. The results of the solvency test have been included in the explanatory note Risk Management.

The funding ratio was calculated as follows: (Total assets -/- liabilities) / Technical provisions * 100%.

The policy funding ratio is the average of the funding ratio over the past 12 months.

The movements in the funding ratio can be specified as follows:

	2021	2020
	%	%
Funding ratio as at 1 January	112.2	111.4
Premium	-0.8	-0.9
Benefit payments	0.3	0.3
Granting of supplements	-1.5	-
Movement in interest rate term structure	7.9	-13.3
Return on investments	4.8	14.0
Change of principles	–	2.7
Other causes and cross impact	0.3	-2.0
Funding ratio as at 31 December	**123.2**	**112.2**

In the recovery plan, the Fund states what measures are taken to attain the equity capital requirement within the maximum recovery period of 10 years. According to the 2021 recovery plan, a policy funding ratio of 120.0% (and thus recovery of the Fund) could be achieved by the end of 2023. In drafting the recovery plan, the Board was supported by external advisers.

The funding ratio increased from 112.2% to 123.2% during the year under review; compared to the 2021 recovery plan, the funding ratio at the end of the financial year was 7.7 percentage points higher than expected.

The policy funding ratio as at 31 December 2021 (of 118.8%) was higher than the required funding ratio (118.3%). On 31 December 202, there was no longer a reserve deficit, meaning that the recovery plan ended on 31 December 2021.

In 2021, the funding ratio compared to the recovery plan developed as follows:

	Actual 2021	Recovery plan 2021
	%	%
Funding ratio as at 1 January	112.2	112.0
Premium	-0.8	-0.8
Benefit payments	0.3	0.3
Granting of supplements	-1.5	–
Movement in interest rate term structure	7.9	–
Return on investments	4.8	4.1
Change of principles	–	–
Other causes and cross impact	0.3	-0.1
Funding ratio as at 31 December	**123.2**	**115.5**

Due to the difference between the premiums received and the actuarially required buy-in for new entitlements during the year, the funding ratio decreased by 0.8%.

The pension payments had an increasing effect on the funding ratio of 0.3%.

The change in the interest rate term structure during 2021 resulted in an increase in the funding ratio of 7.9%.

The factual (excess) return on the investment portfolio resulted in an increase in the funding ratio of 4.8%. Compared to the return taken into account in the recovery plan, the funding ratio increased by 0.7% more than expected due to the factual return on investments.

In rounded terms, the change in principles did not affect the funding ratio.

The granting of supplements from 1 January 2022 (of 1.2%) had a reducing effect on the funding ratio of 1.5%.

Other causes and cross effects yielded an increase in the funding ratio of 0.3%.

5. Technical provisions at the risk of the pension fund

Specification provision for pension liabilities at the risk of the pension fund:

	31-12-2021	31-12-2020
Provision for pension liabilities	4,610,007	4,921,830
Provision for extension risk non-contributory participation	5,487	4,626
Savings fund conscientious objectors	789	736
	4,616,283	**4,927,192**

Movement overview technical provisions

	2021	2020
Position as at 1 January	4,927,192	4,470,985
Pension accrual	90,225	84,124
Granting of supplements	54,475	-
Interest addition	-26,155	-14,436
Withdrawal for pension benefits and pension administration costs	-117,197	-114,399
Change in market interest rates	-314,819	607,057
Movement in actuarial assumptions	-1,501	-104,108
Change from transfer of rights	-246	-2,067
Other movements in technical provisions	4,309	36
Position as at 31 December	**4,616,283**	**4,927,192**

Specification provision for pension liabilities at the risk of the pension fund:

	31-12-2021		31-12-2020	
	quantity	amount	quantity	amount
Participants	10,050	1,192,319	9,349	1,281,242
Former participants	25,185	1,715,303	25,334	1,885,793
Pension beneficiaries	13,715	1,702,385	13,508	1,754,795
Others		6,276		5,362
	48,950	**4,616,283**	**48,191**	**4,927,192**

Included under Others are:

Provision for extension risk non-contributory participation €5,487 (2020: €4,626).

Savings fund for conscientious objectors €789 (2020: €736).

Brief description of the pension scheme

The pension scheme of the pension fund is an average wage scheme.

The retirement pension in 2021 equals 1.39% of the sum of the pension bases, on which premiums have been paid to the pension fund. The pension base equals the (capped) pension salary minus the state pension offset (*AOW-franchise*).

The earliest starting age is 21 years, the retirement date is the age of 67. It is possible to advance the pension. The earliest possible retirement date is 5 years before the state pension age and the latest possible retirement date is 5 years after the state pension age.

The partner's pension is 1.3125% of the sum of the pension bases. For each child, the orphan's pension is 20% of the insured partner's pension. Employees under 21 years of age are insured on a risk basis for partner's and orphan's pensions.

Directors in the sector may be voluntarily insured with the pension fund.

Supplements

The granting of supplements to the pension entitlements of participants, former participants and pension beneficiaries is conditional. There is no entitlement to annual supplements. Whether a supplement is granted and to which extent depends on the financial resources of the pension fund, and the opinion of the Board and the consulting actuary on the financial position of the pension fund. Supplements granted in the past are no guarantee for the future.

Granting of supplements

Based on the policy funding ratio as at 30 September 2021, the Board decided to grant a 1.20% supplement in the financial year to all the participants, former participants and pension beneficiaries on 1 January 2022. No supplement was granted on 1 January 2021.

6. Other liabilities, accruals and deferred income

	31-12-2021	31-12-2020
Debt relating to collateral received	222,188	504,497
Derivatives with negative value	78,694	80,104
Taxes and social charges	2,039	2,012
Costs	1,203	878
Value transfers	170	5
Premiums yet to be processed	25	5
Benefit payments	1	3
	304,320	**587,504**

All liabilities except derivatives with a negative value have a remaining maturity of less than one year.

Derivatives with a negative value can be specified as follows:

specification by class	31-12-2021	31-12-2020
Foreign exchange derivatives negative value	1,335	321
Interest rate derivatives negative value	77,359	79,783
	78,694	**80,104**

The foreign exchange derivatives with a negative value have a maturity of less than one year. The interest rate derivatives with a negative value have a maturity of more than five years.

To manage credit risk, collateral is received or paid for derivatives. At the end of 2021, the collateral management position concerns a net debt of €222,188 (2020: €504,497). In addition, collateral worth €130,726 was lent (2020: €144,611 lent).

Affiliated parties

Transactions with affiliated parties take place on market terms. For the remuneration of Board members, please refer to the explanatory note on Pension administration costs. No loans have been granted to Board members, nor are there any claims towards Board members and former Board members. In 2021, one Board member (2020: two) and four members of the Accountability Body (2020: four) paid premiums to the Fund.

Off-balance sheet assets and liabilities

Long-term contractual obligations

The pension fund has entered into an outsourcing contract with APG DWS en Fondsenbedrijf nv until the end of 2022. Agreements were made with the Board on the remuneration system. This system comprises both fixed and variable components. The remuneration for 2022 is approximately 3.1 million euros.

The pension fund has outsourced its asset management to various asset managers. Contracts have been concluded with the various asset managers, with notice periods ranging from 1 to 3 months.

Investment and payment liabilities

In anticipation of expected incoming cash flows, the Fund has investment and payment liabilities at the balance sheet date. At the end of 2021, these are the following liabilities:

- 33.6 million euros in infrastructure;
- 7.2 million euros in private equity;
- 6.0 million euros in property.

Significant subsequent events

UFR adjustment

Since 2012, DNB's interest rate term structure (RTS) for pension funds has been determined using the Ultimate Forward Rate (UFR). The UFR was based on the (moving) 120-month average of the 20-year forward rate until 31 December 2020.

In 2019, the Parameters Committee recommended adjusting the UFR methodology. DNB has decided to introduce this new UFR method in four equal annual steps from 1 January 2021. With the step-by-step implementation, the new UFR will be fully implemented by early 2024. This step-by-step implementation ensures that the impact of the new UFR method in pension funds' funding ratios is gradually reflected.

The effect of the first step of the new UFR method on the funding ratio as at 1 January 2021 was a decrease of 1.6 percentage points which is reflected in the 2021 figures. The second step, implemented from 1 January 2022, provides an additional 1.2 percentage point decrease. The impact of the remaining two steps is estimated at a 2.4 percentage point decrease in the funding ratio, based on the Fund's financial situation at the end of 2021.

War in Ukraine

On 24 February 2022, Russia invaded Ukraine. This invasion has far-reaching implications and we have expressed our horror of these unacceptable and reprehensible events. Besides the human impact, the economic consequences will be significant. Europe is vulnerable given its dependence on Russian gas supplies. Cutting this gas supply could lead to an energy shortage, a further explosion of gas prices, inflation and production disruptions. We are therefore keeping a close eye on developments in the region.

Together with our asset managers, we are looking at how to wind down our investments in Russia as soon as possible. They represent 0.35% of our investment portfolio, about €18.8 million as at 25 February 2022. However, trading in Russian bonds and equities is currently not possible. As a result, we are unable to sell our existing interests until that situation changes. Our investments are effectively frozen.

The share of the Russian economy and of the Russian stock market in the global economy is small. We do see that the value of our invested assets has decreased compared to the end of the year, but movements in the financial markets are limited as yet. In general, previous geopolitical crises did not lead to a prolonged decline in the value of investments. However, uncertainty is high and volatility may increase further if the conflict escalates. As a pension fund, we are a long-term investor. That means that we do not react immediately to a fall or rise in value, but look at the expected return in the long term. From that perspective, there is no reason to intervene further in our investment portfolio at this moment.

Risk management

The tables in the risk section have been prepared using the look-through approach.

Policy and risk management

The Board has a number of policy instruments in place to manage these risks. These policy instruments relate to:

- investment policy;
- premium policy;
- reinsurance policy;
- supplement policy.

The choice and application of policy instruments take place after detailed analyses regarding likely developments in the liabilities and financial markets. This includes the use of ALM studies. An ALM study is an analysis of the structure of pension liabilities and of various investment strategies and their evolution under varied economic scenarios.

Solvency risk

The pension fund faces risks in managing its pension liabilities and in funding them. The main objective of the pension fund is to meet pension commitments. To achieve this objective, adequate solvency based on the fair value of the pension liabilities is sought.

The most important risk for the pension fund concerns solvency risk, i.e. the risk that the pension fund does not have sufficient assets to cover the pension liabilities. Solvency is measured both by generally applicable standards and by the specific standards imposed by DNB. If the solvency of the pension fund deteriorates, there is a risk that the pension fund will have to increase premiums for companies and participants and a risk that there will be no room for any supplement to accrued pension rights. In extreme cases, it may be necessary for the pension fund to reduce acquired pension entitlements and pension benefits.

	31-12-2021	31-12-2020
Technical provisions	4,616,283	4,927,192
Buffers:		
S1 Interest rate risk	63,613	38,039
S2 Marketable securities risk	667,249	710,994
S3 Currency risk	150,365	178,276
S4 Commodity risk	-	-
S5 Credit risk	206,586	218,523
S6 Underwriting risk	136,585	165,671
S7 Liquidity risk	-	-
S8 Concentration risk	-	-
S9 Operational risk	-	-
S10 Active management risk	-	-
Diversification effect	-378,511	-418,421
Total S (required buffers)	845,887	893,082
Equity capital requirement (Article 132 Pensions Act)	**5,462,170**	**5,820,274**
Pension assets (total assets - liabilities)	5,687,567	5,528,109
Surplus	**225,397**	**-292,165**

The creation of the various risks is explained on the pages below.

The pension fund has entered into derivative contracts to hedge risks. This has been taken into account when determining the required buffers. When calculating the buffers, the pension fund applies DNB's standard model, which assumes the equity capital requirement in an equilibrium, based on the strategic asset mix.

Market risks (S1-S3)

Market risk includes the interest rate risk, marketable securities risk, inflation risk and currency risk. Market risk includes the potential for profit or loss due to a change in market factors. For instance, market factors may be market prices of equities, immovable property and private equity (price risk), but also foreign exchange rates (currency risk) or interest rates (interest rate risk).

The pension fund's investment risk strategy is determined by its investment objectives. Market risk is managed on a daily basis in accordance with the policy frameworks and guidelines in place. The overall market positions are reported to the Board periodically.

The extent to which the pension fund's investment portfolio is sensitive to price and interest rate risk is shown in the following paragraph and the risks faced by the pension fund are explained in more detail next.

Interest rate risk (S1)

Interest rate risk is the risk of movements in the values of the fixed-income securities portfolio and the pension liabilities due to movements in market interest rates.

Interest rate sensitivity can be measured by the duration. Duration is the weighted average remaining maturity in years using the present value of the cash flows. The duration indicates the approximate percentage movement in fair value for a parallel shift of the yield curve by 1 percentage point. High duration reflects high sensitivity to movements in interest rates.

	31-12-2021		31-12-2020	
	Value of balance sheet item	Duration	Value of balance sheet item	Duration
Fixed-income securities (before derivatives)	2,475,088	10.2	2,467,382	10.8
Fixed-income securities (after derivatives)	2,702,170	21.3	2,940,879	23.2
Technical provisions	4,616,283	20.4	4,927,192	20.8

At the balance sheet date, the duration of investments in fixed-income securities before derivatives is significantly shorter than the duration of the technical provisions. Consequently, there is what is known as a ‘duration mismatch’. This means that if interest rates rise, the value of fixed-income securities investments will fall less rapidly than the value of the technical provisions, when applying the current market interest structure, causing the funding ratio to increase. When interest rates fall, the value of fixed-income securities investments will rise less rapidly than the value of the technical provisions, causing the funding ratio to fall.

The pension fund has taken the following control measures:

- The strategic interest rate hedge rate is 55,8% on a market basis. This was done curve-neutral, i.e. based on an adjusted curve profile, based on market interest rates. The instruments used for this purpose are interest rate swaps including liquidities for collateral, Euro government bonds, corporate bonds, and mortgages. In the implementation, the factual interest rate hedge rate will be within a range of -4 percentage points and +4 percentage points at the aggregate level and within a range of -4 percentage points and +4 percentage points at maturity segment level.
- The net impact of interest rate hedging on the funding ratio is disclosed in the quarterly and risk reports. These reports also provide insight into the effectiveness of the interest rate hedge.

The pension fund uses interest rate derivatives. The interest rate derivatives have been cleared with a central counterparty. Interest rate derivatives allow the pension fund to influence the interest rate sensitivity of the portfolio.

The table below shows the contract size of interest rate derivatives at the end of 2021:

Type of contract	Expiry date	Contract size
Interest rate swaps	2022-2029	571,000
Interest rate swaps	2030-2039	736,719
Interest rate swaps	2040-2049	777,968
Interest rate swaps	2050-2059	308,504
Interest rate swaps	2060-2069	125,882

The composition of fixed-income securities by maturity is as follows:

	31-12-2021	in %	31-12-2020	in %
Remaining maturity <1 year	270,666	10.4	400,214	14.1
Remaining maturity >1 years <5 years	712,707	27.2	595,950	20.9
Remaining maturity >5 years	1,632,524	62.4	1,850,556	65.0
	2,615,897	**100.0**	**2,846,720**	**100.0**

Inflation risk

A pension fund is exposed to inflation risk because the value of pension commitments reacts differently to changes in inflation than the value of investments. The (partial) pursuit of a fair pension creates a risk that the movements in pension provisions due to inflation are not offset by movements in the value of investments.

Control measure:

The indexation ambition is reviewed in the ALM and, if necessary, investment instruments that specifically protect against inflation, such as inflation-linked bonds and inflation-linked swaps, are included. This was not the case at the end of 2021 and 2020.

Marketable securities risk (S2)

Marketable securities risk is the risk of movements in value due to movements in market prices of property investments and equities caused by factors related to an individual investment, the issuer or generic factors. As all the investments are measured at fair value with movements in value being recognised immediately in the balance of income and expenditure, all the movements in market conditions are immediately visible in the investment results. The price risk is mitigated by diversification.

Specification of property investments by sector	31-12-2021	in %	31-12-2020	in %
Residential property	309,164	63.5	65,807	15.0
Retail shops	57,531	11.8	57,425	13.1
Offices	80	-	753	0.2
Units in immovable property companies	120,240	24.7	314,010	71.7
	487,015	**100.0**	**437,995**	**100.0**

Specification of property investments by region	31-12-2021	in %	31-12-2020	in %
Europe	428,348	87.9	394,181	90.0
North America	41,021	8.4	25,846	5.9
Asia and Oceania	15,871	3.3	16,397	3.7
Developed markets	**485,240**	**99.6**	**436,424**	**99.6**
Emerging markets	1,775	0.4	1,571	0.4
	487,015	**100.0**	**437,995**	**100.0**

Specification of equities by sector	31-12-2021	in %	31-12-2020	in %
Information technology	555,256	24.2	430,571	21.7
Consumer goods	459,742	20.0	419,308	21.1
Financial institutions (including banks and insurers)	331,232	14.4	288,206	14.5
Healthcare	262,131	11.4	225,450	11.4
Industry	244,341	10.7	200,659	10.1
Telecommunications	208,767	9.1	189,573	9.6
Commodities	98,870	4.3	103,301	5.0
Energy	73,230	3.2	63,664	3.2
Utilities	57,789	2.5	58,135	2.9
Other	4,401	0.2	9,723	0.5
	2,295,759	**100.0**	**1,988,590**	**100.0**

Specification of equities by region	31-12-2021	in %	31-12-2020	in %
North America	1418333	61.8	1,050,893	52.9
Asia and Oceania	433,181	18.9	499,668	25.1
Europe	398,441	17.3	364,470	18.3
Developed markets	**2,249,955**	**98.0**	**1,915,031**	**96.3**
Emerging markets	45804	2.0	73,559	3.7
	2,295,759	**100.0**	**1,988,590**	**100.0**

Currency risk (S3)

Currency risk is the risk of movements in value due to movements in the value of foreign currencies against the euro. This risk is hedged through currency derivatives. Currency derivatives are contracts entered into with individual banks, committing to sell one currency and buy another, at a predetermined price and on a predetermined date.

The total amount invested other than in euros at the end of the year under review is €2,531,078 (2020: €2,220,513).

Control measures: The investment portfolio is hedged for 67% (2020: 59%) by the currency derivatives. At the end of the financial year, the value of outstanding currency derivatives is €1,773 (2020: €24,243).

The currency risk is carried out through a so-called overlay, where the currency positions of the relevant investments are hedged in aggregate.

The foreign currency position before and after hedging by currency derivatives is shown below:

	Position before hedging	Currency derivatives	Net position after hedging 2021	Net position after hedging 2020
EUR	3,328,403	1,696,619	5,025,022	5,074,370
USD	1,467,670	-1,455,444	12,226	66,988
JPY	145,653	-127,148	18,505	10,005
GBP	108,292	-112,781	-4,489	-2,562
HKD	85,832	-	85,832	112,836
CAD	58,794	-	58,794	46,202
CHF	59,752	-	59,752	49,479
AUD	55,568	-	55,568	46,668
Other	549,517	527	550,044	570,862
	5,859,481	**1,773**	**5,861,254**	**5,974,848**

The foreign currency position by investment class at the end of 2021 is:

	Property investments	Equities	Fixed-income securities	Derivatives	Other investments	Total
EUR	425,938	205,372	2,344,320	1,912,542	136,851	5,025,023
USD	41,328	1,375,777	2,560	-1,455,444	48,005	12,226
JPY	4,241	137,593	-	-127,148	3,819	18,505
GBP	1,059	84,748	-	-112,781	22,485	-4,489
HKD	6,048	79,103	-	-	681	85,832
CAD	156	57,145	-	-	1,493	58,794
CHF	416	56,874	-	-	2,462	59,752
AUD	2,592	41,947	-	-	11,030	55,569
Other	5,237	257,200	269,017	534	18,054	550,042
	487,015	**2,295,759**	**2,615,897**	**217,703**	**244,880**	**5,861,254**

At the end of 2020, the foreign currency position by investment class was distributed as follows:

	Property investments	Equities	Fixed-income securities	Derivatives	Other investments	Total
EUR	392,610	169,152	2,579,615	1,805,472	127,522	5,074,371
USD	25,832	1,091,294	3,483	-1,100,279	46,659	66,989
JPY	3,153	130,654	-	-128,243	4,442	10,006
GBP	765	68,821	892	-91,724	18,682	-2,564
HKD	7,141	105,076	-	-	619	112,836
CAD	0	45,224	-	-	978	46,202
CHF	375	47,216	-	8	1,879	49,478
AUD	2,128	39,213	-	-	5,327	46,668
Other	5,991	291,940	262,730	211	9,990	570,862
	437,995	**1,988,590**	**2,846,720**	**485,445**	**216,098**	**5,974,848**

The table below shows the contract size of the currency derivatives at the end of 2021:

Type of contract	Expiry date	Contract size
Forward foreign exchange contract EUR/USD	14-01-2022	1,454,353
Forward foreign exchange contract EUR/JPY	14-01-2022	138,027
Forward foreign exchange contract EUR/GBP	14-01-2022	111,923

Credit risk (S5)

The risk that a counterparty may default on contractual or other agreed obligations (including credits given, loans, receivables) whether or not as a result of foreign payments being subject to restrictions.

The risk incurred is a desirable risk insofar as it is sufficiently compensated for in the form of higher returns.

Control measures:

- the strategic risk assessment based on the ALM contains an allocation to fixed-income securities with credit risk based on risk indicators; and
- within the investment portfolios, limits are included on credit ratings of investments in instruments, countries and/or sectors.

Credit risk also arises when entering into transactions with external parties (including derivative positions) involving exposure to such counterparties. A counterparty's insolvency may lead to losses. This is an undesirable risk that, within reasonable limits, should be minimised.

Control measures:

- when entering into new transactions, the counterparty's creditworthiness, existing exposure and other relevant aspects are assessed;
- depending on its creditworthiness, each counterparty may only account for a certain percentage of the total risk, collateral is stipulated and the quality and frequency of adjustment are recorded in advance and continuously monitored.

In order to hedge the settlement risk, the pension fund only invests in markets that have a sufficiently reliable clearing and settlement system in place. Before investing in new markets, research into the safeguards in this area is conducted. With regard to OTC derivatives, the pension fund only deals with counterparties with which ISDA/CSA agreements are in place, so that the positions of the pension fund are adequately collateralised. Daily valuations are used. Interest rate derivatives use centrally cleared interest rate swaps, with positions being settled daily.

Specification of fixed-income securities by region	31-12-2021	in %	31-12-2020	in %
Europe	2,172,834	83.1	2,410,991	84.7
North America	222,529	8.5	188,420	6.6
Asia and Oceania	134,013	5.1	129,201	4.6
Developed markets	**2,529,376**	**96.7**	**2,728,612**	**95.9**
Emerging markets	86,521	3.3	118,108	4.1
	2,615,897	**100.0**	**2,846,720**	**100.0**

With regard to the creditworthiness of the debtors of the fixed-income portfolio, the following overviews can be given:

	31-12-2021	in %	31-12-2020	in %
AAA	529,581	20.3	617,872	21.7
AA	393,184	15.0	507,870	17.9
A	383,035	14.6	387,327	13.6
BBB	526,932	20.1	628,624	22.1
< BBB	86,379	3.3	134,492	4.7
No rating	696,786	26.7	570,535	20.0
	2,615,897	**100.0**	**2,846,720**	**100.0**

The ratings shown in the table above are based on the ratings issued by rating agencies S&P, Moody's and Fitch.

The 'No rating' class mainly includes investments in mortgage investment funds and corporate bonds.

Underwriting risk (S6)

The main underwriting risks for the Fund are life expectancy and occupational disability. If developments in these areas should lead to adjustments of the principles, the Fund will do so immediately.

Control measure:

- the underwriting risk is monitored using the Fund's annual actuarial analyses and national publications on life expectancy and occupational disability.

Longevity risk

Longevity risk is the risk that participants, former participants or pension beneficiaries live longer than assumed on average when determining the technical provision. As a result, the accrual of pension capital is not sufficient to pay the pension liability.

By applying Projections Life Table AG2020 with appropriate adjustments for mortality experience, the longevity risk has been discounted in the valuation of pension liabilities based on current insights.

Mortality risk

Mortality risk means that in the event of death, the pension fund may have to grant a partner's pension for which no provisions have been made by the pension fund.

Occupational disability risk

Occupational disability risk refers to the risk that the pension fund has to make provisions for non-contributory participation in case of occupational disability, i.e. a claims reserve. A risk premium is charged annually for this risk. The difference between the risk premium and actual costs is recognised through profit and loss. The actuarial assumptions for the risk premium are reviewed periodically.

The pension fund's policy is not reinsuring the mortality and occupational disability risk.

Liquidity risk (S7)

Liquidity risk is the risk that investments cannot be converted into cash in a timely manner and/or at an acceptable price. As a result, the pension fund may not be able to meet its obligations in the short term. Where the other risk components mainly concern the longer term, i.e. solvency, the focus here is on the shorter term. This risk is managed by maintaining sufficient room for liquidity positions in the strategic and tactical investment policies. Direct investment returns and other income such as premiums are also taken into account. In view of the fact that a large part of the investment portfolio is rapidly tradable and convertible into liquidity, the liquidity risk has been set at zero when applying DNB's standard model for determining the equity capital requirement.

Concentration risk (S8)

Large items can be designated as a form of concentration risk. To determine which items are included, all the instruments with the same debtor must be totalled for each investment class. A large item is any item that represents more than 2% of the balance sheet total. Concentration risk is measured by concentration of a country or with a counterparty.

On 31 December 2021, this concerns the following items (percentage relative to the balance sheet total at year-end 2021: 10%; year-end 2020: 12%):

Fixed-income securities	31-12-2021	31-12-2020
Government bonds the Netherlands	259,978	314,970
Government bonds Germany	162,278	190,267
Government bonds France	151,481	213,060

In general, the concentration risk may occur in the absence of adequate diversification of assets and liabilities. Concentration risks may occur when the portfolio is concentrated in regions, economic sectors or counterparties. A portfolio of investments that is highly sector-specific may be at increased risk due to this sector concentration. If equities are held in the same sector, there is a cumulative concentration risk.

Control measures:

- concentrations are limited through the mandate guidelines imposed on the asset managers. Analyses are used to assess whether these are acceptable or need to be reduced.

In determining the equity capital requirement, the pension fund applies DNB's standard model. In that model, the concentration risk is set at zero as yet.

The main form of concentration risk in the pension fund's liabilities is the demographic composition of participants, former participants and pension beneficiaries. Given its nature, this risk cannot be influenced. The provision-weighted average age is 60.6 years (2020: 59.1 years), with equal age distribution.

On this basis, the Board has concluded that there is no concentration in assets or liabilities and therefore no buffer for concentration risk is held.

Operational risk (S9)

Operational risk is the risk of incorrect settlement of transactions, data processing errors, loss of information, fraud and the like. These risks are controlled by the pension fund by setting high quality standards for the organisations involved in the pension administration.

The investment portfolio has been placed with several asset managers. Service level agreements (SLAs) and other agreements have been concluded with these parties. The dependency of these parties is controlled by the fact that the custody of portfolio securities is placed with custodian CACEIS. Pension administration has been outsourced to pension administrator APG. An outsourcing agreement and SLA have been signed with APG. Each year, the Board assesses the quality of the performance of the asset managers, custodian and pension administrator through performance reports (asset managers only), SLA reports, in-control statements and independently reviewed internal control reports (Standard 3402 reports). As this provides adequate control of operational risks, the pension fund does not take them into account in the solvency test.

Active management risk (S10)

When opting for an active investment policy with the objective of outperforming the benchmark, this entails additional risks compared to investing in the benchmark. An additional shock or a surcharge on the relevant standard shock in the standard model seems logical in this context. After all, the risk is higher and so the required buffer should be higher.

However, active management can also be used with objectives other than achieving a higher return than the benchmark. Potential strategies are:
• reducing the volatility of the tracked benchmark, thereby reducing the risk;
• reducing the volatility of the entire portfolio;
• investing in investment classes for which a developed benchmark is not or not yet available. For instance, in the case of socially responsible investing.

There is no explicit requirement for handling active management within the standard model. For the determination of the required buffer for active management risk, DNB has developed a methodology (set of guidelines for active management risk (S10) standard model equity capital requirement, Q&A 01673).

The Fund includes S10 if, for listed equities, the tracking error (TE) of the mandate relative to the benchmark exceeds 1%. The Fund then calculates the S10 for the additional risk exceeding the TE of 1% as per the set of guidelines.

6 Explanatory notes to the statement of income and expenditure

(Amounts in thousands of euros, unless stated otherwise)

7. Premium contributions at the risk of the pension fund (from employers and employees)

	2021	2020
Premium contributions from employers and employees	64,795	60,300
Amortisation of premium receivables	-25	-122
Movement provision for doubtful debts	22	68
	64,792	**60,246**

The total contribution from employer and employees is 23.0% (2020: 23.0%) of the wage bill.

The pure cost-covering, smoothed and factual premiums under Article 130 of the Pensions Act are as follows:

	2021	2020
Pure cost-covering premium	112,561	105,350
Smoothed cost-covering premium	62,241	46,875
Factual premium	64,795	60,300

The pure cost-covering premium is based on the market interest rate (nominal interest rate term structure of 31 December 2021 published by DNB).

The factual premium has been recognised as income. The factual premium excludes movements in premium receivables and includes the surcharge for non-contributory participation of €2,843 (2020: €2,644).

The pension fund uses a smoothed cost-covering premium rate for the annual review of the level of cost-covering premium. Here, the smoothed cost-covering premium is set annually based on an expected real return.

The composition of the pure cost-covering premium is as follows:

	2021	2020
Actuarially required premiums	94,765	88,143
Surcharge for pension administration costs	644	812
Solvency surcharge (equity capital requirement)	17,152	16,395
	112,561	**105,350**

The composition of the smoothed premium is as follows:

	2021	2020
Actuarially required premiums	33,357	25,334
Surcharge for pension administration costs	644	812
Solvency surcharge (equity capital requirement)	6,038	4,712
Conditional elements	22,202	16,017
	62,241	**46,875**

For the smoothed premium, the methodology of the FTK for a smoothed premium based on expected returns was used: a surcharge equal to the amount of the equity capital requirement and the costs for future supplements. Supplement costs are based on a supplement equal to the average of the price index. These costs are higher than the surcharge for the equity capital requirement, so the excess, above the surcharge for the equity capital requirement, has been incorporated into an additional premium for conditional elements.

8. Investment returns at the risk of the pension fund

2021	Direct investment returns	Indirect investment returns	Asset management costs	Total
Property investments	10,839	26,072	-234	36,677
Equities	-	543,783	-1,262	542,521
Fixed-interest securities	20,655	-98,410	-1,586	-79,341
Derivatives	21,675	-324,081	-251	-302,657
Other investments	3,731	12,624	-86	16,269
	56,900	**159,988**	**-3,419**	**213,469**
Overheads allocated from pension administration costs	-	-	-859	-859
	56,900	**159,988**	**-4,278**	**212,610**

2020	Direct investment returns	Indirect investment returns	Asset management costs	Total
Property investments	9,204	8,064	-233	17,035
Equities	-	171,229	-1,196	170,033
Fixed-interest securities	26,417	79,156	-1,649	103,924
Derivatives	22,502	288,069	-281	310,290
Other investments	11	1,655	-69	1,597
	58,134	**548,173**	**-3,428**	**602,879**
Overheads allocated from pension administration costs	-	-	-913	-913
	58,134	**548,173**	**-4,341**	**601,966**

Asset management fees include fees charged directly to the Fund by the custodian and asset manager(s). The Fund's share of costs charged to investment funds by asset managers is part of the indirect investment returns. These amount to €16,600 (2020: €13,318).

Taking this into account, the investment costs total €20,878 (2020: €17,659). These costs comprise €9,717 in management fees (2020: €8,759), €4,370 in performance-related fees (2020: €2,018), €5,932 in transaction costs (2020: €5,969) and €859 in overheads allocated from pension administration costs (2020: €913).

9. Other income

This includes refunded VAT €562 (2020:€12), interest income from collection €13 (2020: €9) and other income €5 (2020:€2) .

10. Pension benefit payments

	2021	2020
Retirement pension	93,111	90,862
Partner's pension	19,570	19,195
Occupational disability	401	415
Orphan's pension	155	173
Commutations	999	1,204
	114,236	**111,849**

The item commutations relates to the commutation of pensions lower than €503.24 (2020: €497.27) per annum in accordance with Article 66 of the Pension Act (amounts stated are denominated in euros).

The Board has decided not to grant a supplement to the benefits, with effect from 1 January 2021, as with 1 July 2020.

11. Pension administration costs

	2021	2020
Administrative costs	2,919	2,595
Governance costs	605	650
Costs of Executive Office	563	489
De Nederlandsche Bank	257	271
Consultancy costs	245	290
Accountant costs	74	72
Supervisory Board	66	64
Federation of Dutch Pension Funds	29	26
Dutch Authority for Financial Markets	21	18
Other costs	27	40
	4,806	**4,515**
Of which allocated to costs of asset management	-859	-913
	3,947	**3,602**

Independent auditor's fees
As in 2020, the external independent auditor is PricewaterhouseCoopers Accountants N.V.

The examination of the annual accounts includes both the statutory audit of the annual accounts under the Articles of Association and the reporting statements under the Pensions Act.

Pursuant to Section 382a Title 9 Book 2 of the Dutch Civil Code, the disclosure of the independent auditor's fees is as follows (the costs are allocated to the financial year):

	2021		2020	
	PricewaterhouseCoopers Accountants N.V.	Other PwC network*	PricewaterhouseCoopers Accountants N.V.	Other PwC network
Examination of the annual accounts and reporting statements	74	–	72	–
Other audit mandates	–	–	–	–
Tax advisory services	–	23	–	3
Other non-audit services	–	–	–	–
	74	**23**	**72**	**3**

* Other PwC Network costs relate to costs in the context of VAT advice

Remuneration of Board members

Neither in 2021, nor in 2020, the pension fund had staff. Management activities are performed on the basis of an pension administration agreement by staff employed by APG DWS en Fondsenbedrijf nv or the asset managers.

Transactions with Board members relate to fees for work related to Board and committee meetings. The remunerations consist of rewards of €346 (2020: €403) and reimbursements of travel expenses of €6 (2020: €10).

Supervisory Board

Costs relating to the Supervisory Board consist of fees for internal supervision activities. In 2021, these costs were €66 (2020: €64).

Executive Office

The Executive Office deals with supporting the work of the Board, Accountability Body and Supervisory Board. The staff members of the Executive Office are either employed by Stichting Technisch Bureau Bouwnijverheid or hired externally. The Executive Office operates independently of the pension administration organisations. Statements of independence have been drawn up to ensure this independence. Executive Office staff are directly accountable to the Board.

12. Movement technical provisions at the risk of the pension fund

	2021	2020
Pension accrual	90,225	84,124
Granting of supplements	54,475	-
Interest addition	-26,155	-14,436
Withdrawal for pension benefits and pension administration costs	-117,197	-114,399
Change in market interest rates	-314,819	607,057
Movement in actuarial assumptions	-1,501	-104,108
Change from transfer of rights	-246	-2,067
Other movements in technical provisions	4,309	36
	-310,909	**456,207**

Interest addition

In the financial year, interest was added to the provision for pension liabilities by -0.533% (2020: -0.324%). This is the one-year interest rate from the interest rate term structure as at 31 December 2020 as published by DNB.

Change in market interest rates

The introduction of the first step of the new UFR methodology increased the provision for pension liabilities by €75,091 in 2021. The regular movement in the interest rate term structure resulted in a decrease in the provision for pension liabilities by €389,910. Due to the movement in market interest rates, the provision for pension liabilities therefore decreased on balance by €314,819.

Movement in actuarial assumptions

	2021	2020
Introduction of new survival tables	-	-108,048
Change in correction factors	-	-15,195
Change in loading for disbursement costs	-	19,135
Change in loading for orphan's pension	-1,501	-
	-1,501	**-104,108**

Other movements in technical provisions

	2021	2020
Change due to probability systems and other mortality	3,355	-357
Occupational disability	2,689	1,486
Changes	-1,735	-1,093
	4,309	**36**

13. Balance of transfers of rights

	2021	2020
Incoming value transfers	-2,671	-3,223
Outgoing value transfers	2,966	4,715
	295	**1,492**

This refers to the receipt from or payment to pension fund or pension insurer from the previous or new employer, respectively, of the present value of participants' contribution-free pension entitlements accrued up to the date of dismissal. The lump sums received are used to buy additional entitlements.

	2021	2020
Change technical provision on transfer of rights		
Addition to technical provisions	2,355	2,991
Withdrawal from technical provisions	-2,601	-5,058
	-246	**-2,067**

The result on value transfers is as follows:

	2021	2020
Incoming pension liability	-316	-232
Outgoing pension liability	364	-343
	48	**-575**

14. Other expenditure

This comprises interest costs (€46; 2020: €44).

Taxes

The Fund's activities are exempt from taxation under corporation tax.

Adoption of the annual accounts by the Board

The Board of Stichting Pensioenfonds voor de Architectenbureaus adopted the 2021 annual accounts at its meeting on 8 June 2022.

On behalf of the Board and Supervisory Board,

8 June 2022, Harderwijk

Board

G. T. J. Meulenbroek, chair
H. W. T. de Vaan, vice-chair
R. G. Nagtegaal
J. G. E. van Leeuwen
M. M. E. P. Groenen
I. Slikkerveer
P. de Groot
A. Soederhuizen

Supervisory Board
H. G. I. M Peters, chair
M. A. Bongers
P. G. E. van Gent

III. Other details

1 Rule under the Articles of Association on the appropriation of the balance of income and expenditure

There is no stipulation in the Fund's Articles of Association for the appropriation of the balance of income and expenditure. The appropriation is detailed in the actuarial and technical business memorandum.

The proposal for the appropriation of the balance of income and expenditure for 2021 has been included in the annual accounts.

2 Actuarial statement

Mandate
Milliman Pensioenen B.V. has been mandated by Stichting Pensioenfonds voor de Architectenbureaus in Harderwijk to issue an actuarial statement as referred to in the Pensions Act for the 2021 financial year.

Independence
As certifying actuary, I am independent of Stichting Pensioenfonds voor de Architectenbureaus as required by Article 148 of the Pensions Act. I do not perform any other work for the pension fund. This also applies to other actuaries and experts working at Milliman Pensioenen B.V.

Data
The data on which my examination has been based was provided by and established under the responsibility of the pension fund Board. In reviewing the technical provisions and assessing the asset position, I have relied on the financial data underlying the annual accounts.

Coordination with accountant
Based on the Guidance used by me and the accountant, the work and expectations in the audit for the financial year were aligned. For the review of the technical provisions and for the assessment of the asset position as a whole, I have determined the pension administration materiality at €25,900. I arranged with the accountant to report any misstatements found above €1,700.

These agreements were recorded and the results of my findings were discussed with the accountant.

I have further used the basic data examined by the accountant as part of the annual accounts audit. The pension fund's accountant informed me of his findings regarding the reliability (material accuracy and completeness) of the basic data and the other assumptions relevant to my opinion.

Activities
In fulfilment of the mandate, in accordance with my statutory responsibility as described in Article 147 of the Pensions Act, I have examined compliance with Articles 126 to 140 inclusive of the Pensions Act. The basic data provided by the pension fund is such that I have accepted that data as the starting point of the calculations I reviewed.

As part of the activities concerning the instruction, I examined, among other things, whether:
- adequate technical provisions have been established in respect of all the pension liabilities;
- the minimum equity capital requirement and equity capital requirement have been determined in accordance with the statutory provisions;
- the cost-covering premium meets the statutory requirements set;
- the investment is in accordance with the prudent person rule.

Furthermore, I have formed an opinion on the pension fund's asset position. In doing so, I took into account the commitments entered into up to and including the balance sheet date and the resources available at that time, as well as the financial policy of the pension fund.

I conducted my examination such that reasonable assurance is obtained that the results are free from material misstatement.

The activities described and their performance are in accordance with the standards and practices applicable within the Royal Dutch Actuarial Association and, in my opinion, provide a sound basis for my opinion.

Opinion

In accordance with the calculation rules and assumptions described, adequate technical provisions, as a whole, have been established.

The pension fund's equity at the balance sheet date is higher than the statutory equity capital requirement.

Subject to the foregoing, I am satisfied that Articles 126 to 140 inclusive of the Pensions Act have been complied with.

The pension fund's policy funding ratio at the balance sheet date is higher than the funding ratio for the equity capital requirement.

My opinion on the asset position of Stichting Pensioenfonds voor de Architectenbureaus is based on the liabilities incurred up to and including the balance sheet date and the resources available at that time. In my opinion, the asset position is considered to be satisfactory.

The fact that the possibilities of realising the supplements are limited has been taken into consideration.

As part of this assessment, I draw the attention to the developments after the balance sheet date due to the Ukraine crisis, as explained by the pension fund in the annual report.

Amsterdam, 21 June 2022

drs. R. K. Sagoenie *AAG*
associated with Milliman Pensioenen B.V.

3 Independent auditor’s report

To: the Board of Stichting Pensioenfonds voor de Architectenbureaus

Report on the annual accounts 2021

Our opinion

In our opinion, the annual accounts of Stichting Pensioenfonds voor de Architectenbureaus ('the foundation') present a true and fair view of the size and composition of the foundation's assets as at 31 December 2021 and of the balance of income and expenditure for 2021 in accordance with Title 9 of Book 2 of the Dutch Civil Code.

What we audited

We have audited the 2021 annual accounts of Stichting Pensioenfonds voor de Architectenbureaus, Harderwijk, included in this annual report.

The annual accounts comprise:

- the balance sheet as at 31 December 2021;
- the statement of income and expenditure for 2021;
- the explanatory notes with an overview of the accounting policies used and other explanatory notes.

The financial reporting framework used to prepare the annual accounts is Title 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, which includes the Dutch auditing standards. Our responsibilities on this basis are described in the paragraph ‘Our responsibilities for the audit of the annual accounts’.

We believe that the audit evidence we have obtained is sufficient and appropriate as a basis for our opinion.

Independence

We are independent of Stichting Pensioenfonds voor de Architectenbureaus as required by the Dutch Accountants' Organisations (Supervision) Act (*Wta*), the Regulation on the independence of auditors in assurance engagements (*ViO*) and other independence rules in the Netherlands relevant to the mandate. Furthermore, we have complied with the Code of Ethics for Professional Accountants Regulation with respect to Rules of Professional Conduct (*VGBA*).

Opinion on the other information included in the annual report

The annual report also includes other information. This covers all information in the annual report other than the annual accounts and our audit opinion thereon.

Based on the work mentioned below, we believe that the other information:

- is consistent with the annual accounts and does not contain any material misstatements;
- comprises all the information required pursuant to Title 9 Book 2 of the Dutch Civil Code for the management report and the other data.

We have read the other information and, based on our knowledge and understanding obtained from the annual accounts audit or otherwise, considered whether the other information contains material misstatements.

With our work, we complied with the requirements of Title 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. This work does not have the same depth as our audit procedures on the annual accounts.

The Board is responsible for the preparation of the other information, including the management report and other data in accordance with Title 9 of Book 2 of the Dutch Civil Code.

Responsibilities relating to the annual accounts and audit

The Board's responsibilities for the annual accounts

The Board is responsible for:

- the preparation and true and fair presentation of the annual accounts in accordance with Title 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as it determines is necessary to enable the preparation of annual accounts that are free from material misstatements, whether due to error or fraud.

When preparing the annual accounts, the Board must consider whether the foundation is able to continue its operations on a going concern basis. Under said accounting regime, the Board must prepare the annual accounts on the basis of the going concern assumption, unless the Board intends to liquidate the foundation or cease operations or if termination is the only realistic alternative. The Board must explain events and circumstances in the annual accounts that might raise reasonable doubt as to whether the foundation can continue its activities as a going concern.

Our responsibilities for the audit of the annual accounts

Our responsibility is to plan and perform an audit mandate in such a way as to obtain sufficient and appropriate audit evidence for the opinion we issue.

Our objectives are to obtain reasonable assurance as to whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to express an audit report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance which means that we may not detect all the material misstatements during our audit.

Misstatements may arise as a result of fraud or errors and are material if they can reasonably be expected to affect, individually or collectively, the economic decisions users make on the basis of these annual accounts. Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the impact of recognised misstatements on our opinion.

A more detailed description of our responsibilities is included in the annex to our audit report.

Amsterdam, 21 June 2022

PricewaterhouseCoopers Accountants N.V.

Originally signed by N. C. Doets *RA*

IV. Appendices

1. Nominating organisations

The following organisations appoint members to the Board and/or the Accountability Body:

- Royal Society for the Advancement of Architecture Association of Dutch Architects (BNA);
- De Unie;
- FNV;
- CNV Vakmensen;
- CSO;
- ANBO.

2. External parties

The Fund worked with the following external parties in 2021:

Pension administration organisation

Pension management

APG DWS & Fondsenbedrijf N.V.

Asset management

BMO Global Asset Management

Bouwinvest Real Estate Investment Management B.V.

PGGM Vermogensbeheer B.V.

Syntrus Achmea Real Estate & Finance

Executive Office

Technisch Bureau Bouw & Infra

Ortec Finance B.V.

Sprenkels & Verschuren B.V.

Fiduciary management

BMO Global Asset Management (EMEA)

Custodian

CACEIS

Monitoring property investments

Finance Ideas B.V.

Consulting actuary

Triple A - Risk Finance B.V.

Certifying actuary

Milliman Pensioenen B.V.

Independent external auditor

PricewaterhouseCoopers Accountants N.V.

Role holder key role risk management and actuarial function

Sprenkels & Verschuren B.V.

Role holder key role internal audit

Mazars

Compliance work

Nederlands Compliance Instituut B.V.

Sprenkels & Verschuren B.V.

Confidential adviser

Nederlands Compliance Instituut B.V.

3. Pension scheme details

	2021	2020	2019	2018	2017
Defined-benefit agreement	Average wage	Average wage	Average wage	Average wage	Average wage
Retirement pension accrual rate	1.390%	1.738%	1.738%	1.738%	1.875%
Partner's pension accrual rate	1.3125%	1.3125%	1.3125%	1.3125%	70% of the retirement pension
Orphan's pension accrual rate	0.2625%	0.2625%	0.2625%	0.2625%	14% of the retirement pension
Pension target age	67	67	67	67	67
Maximum wage	80,041	78,223	76,382	74,876	74,022
State pension offset	14,789	14,383	14,044	13,767	13,562
Maximum pension base	65,252	63,840	62,338	61,109	60,460
Actual pension premium compulsory scheme	23.00%	23.00%	23.00%	23.00%	23.00%
Employer share	12.65%	12.65%	12.65%	12.65%	12.65%
Employee share	10.35%	10.35%	10.35%	10.35%	10.35%
Increase of pensions in payment	0.00%	0.00%	0.53%	0.10%	0.00%
Increase in pension rights participants and former participants	0.00%	0.00%	0.53%	0.10%	0.00%

4. Ancillary positions

The Board members fulfilled the following relevant ancillary activities in 2021:

M. M. E. P. Groenen
DGA MG Advies B.V.
DGA GLS Architectuur I Interieur B.V.

P. de Groot
Member of the advisory board Inbo architecten, adviseurs en stedenbouwkundigen
Member of the board of pension fund Pensioenfonds DNB
External member AC pension fund Rabobank
Chair of the supervisory board of pension fund Pensioenfonds Delta Lloyd
Member of the supervisory board of Woningborg
Chair of Vereniging Intern Toezichthouders Pensioensector (Association of internal regulators pension sector)

J. van Leeuwen
Member of the editorial board of Financial Investigator
Member of the board of pension fund Pensioenfonds Zoetwaren
Member of the board of PNO Media

R. G. Nagtegaal
Chair guidance committee social plan Agrifirm
Chair Shareholders foundation Stichting AT Osborne
Chair foundation Stichting Geerestein (manager employee participation scheme Inbo)
Various advisory positions, particularly in the architectural sector

G. T. J. Meulenbroek
Employee/risk management consultant Achmea Pensioenservices
Key role holder risk management pension fund Pensioenfonds Particuliere Beveiliging
Interim manager Governance Advice Achmea Pensioenservices

I. Slikkerveer
Senior adviser on pensions at De Unie
Member of the board of the pension fund Pensioenfonds Nederlandse Groothandel
Member of the board of pension fund ING CDC Pensioenfonds
Partner Merlijn Groep

A. Soederhuizen
Member advisory board Amundi Asset Management Nederland
Member investment advisory committee PH&C
Member of investment advisory committee Unilever APF (2 sections)

H. W. T. de Vaan
Employed by CNV Vakmensen
Member of the board of occupational pension fund Bedrijfstakpensioenfonds BPL
Participant working group Compensation related to the pension agreement of the Ministry of Social Affairs and Employment
Member of PGGM Client Council
Member of SAREF Client Council

Members of the Accountability Body fulfilled the following relevant ancillary activities in 2021:

E. Borgert
Owner/architect at Aerde Borgert Architecten
Member Ladies' Circle Tilburg

B. van den Bos
Advisor to foundation Stichting De Kunsthaven in Enschede
Advisor to foundation Stichting Behoud Bungalowpark Het Teesinkbos
Board member of VVE de Valkenburgh Amsterdam

G. J. Groeneveld
Finance director at Gortemaker Algra Feenstra Architects B.V.
Board member on behalf of BNA in general board of foundation Stichting Fonds Architectenbureaus
Secretary/treasurer foundation Stichting Familie Sponsorplan Roemenië
Home administration volunteer Hart voor Woerden

M. Kuijt
Ambassador at Ingenieursbureau Multical B.V. in Rotterdam
Independent trainer/coach at Juncta Juvant in Capelle aan den IJssel

D. Verweij
Office manager at LEVS

S. Vink
Project manager at Inbo

Members of the Supervisory Board fulfilled the following relevant ancillary activities in 2021:

M. A. Bongers
Member of professional conduct council of NOREA (Dutch association of registered EDP auditors)
Member of the Admissions and Quality Assurance Committee of NOREA
Treasurer ITACS
Member of the supervisory board of Accon Avm Adviseurs en Accountants
Consultant for various institutions and companies, including in the areas of supervision, IT, finance and strategy
Member of the advisory board of start-ups on cybersecurity, privacy research and financial recruitment
Examiner and lecturer accountancy training programme Netherlands Institute of Chartered Accountants (NBA)

P. G. E. van Gent
Member Investment Advisory Committee pension fund Pensioenfonds IBM Netherlands
Member Investment Advisory Committee De Nationale APF

H. G. I. M. Peters
Chair of Circle of Pension specialists
Member audit committee pension fund Pensioenfonds Particuliere Beveiliging
Executive director asset management pension fund Pensioenfonds Citigroup
Member working group of the Dutch Federation of Pension Funds on the IMVB agreement

The independent members of the Complaints and Disputes Committee fulfilled the following relevant ancillary activities in 2021:

L. Berrich
No relevant ancillary positions

B. J. Bodewes
Chair of disputes committee of occupational pension fund BPF Schilders

F. Prins
Consultant at BSG
(Aspirant) mentor at foundation Stichting Mentorschap Haag en Rijn
Advisor at Ortec
Consultant Monitoring Committee Code of the Dutch Pension Funds

5. Composition of the Executive Office

Composition of Executive Office at the end of 2021:

R. van Asselt, risk management specialist

N. van Blitterswijk, asset management specialist

P. O. Bos, director

E. M. Bosman, Board consultant

R. Goris, asset management specialist

M. Heijs, employee risk management

H. Kuiper, communications specialist

E. Lock, specialist risk management

6. Terms and abbreviations

Actuarial and technical business memorandum: pension funds have to operate according to an actuarial and technical business memorandum. It substantiates the financial set-up of a pension fund and the principles on which it is based.

AFM (Dutch Authority for Financial Markets): supervisory body on the conduct of pension funds.

ALM (asset liability management): a method to determine the composition of the strategic investment portfolio and match it to liabilities.

Benchmark: measure of comparison. Representative yardstick against which the performance of an investment portfolio is measured.

Policy funding ratio: the policy funding ratio is the average of the twelve funding ratios over the last twelve months.

Funding ratio: the value of the pension assets expressed as a percentage of the value of the pension liabilities. The funding ratio is considered an indicator of the degree of certainty that committed pensions can actually be paid out.

FTK (Financial Assessment Framework): the Financial Assessment Framework provides rules on the legal financial liabilities of pension funds and has been included in the Pensions Act.

Governance: good entrepreneurship, including acting with integrity and transparency by the board, as well as proper supervision thereof. It also includes rendering account for and monitoring the policies pursued.

High yield: high-yield bonds issued by companies with low credit ratings.

Performance test: performance test: the performance test is an averaging of the Z-score over 5 years.

Private equity: investments in unlisted companies.

Fictitious interest rate: notional rate of return that invested assets are expected to yield in the future.

Interest rate term structure (RTS): the interest rate term structure reflects the relationship between the maturity of a fixed-income investment on the one hand and the market interest rate to be received thereon on the other.

Solvency: the capital that must be available in the longer term to meet liabilities.

Swap: exchange of the return on a fixed reference value for a floating interest rate during a fixed term.

UFR (Ultimate Forward Rate): to determine the interest rate term structure, the UFR is applied, among other things. Adopting the UFR means applying an adjusted yield curve for liabilities in a distant future.

Fixed-interest securities: class of investments that basically have a fixed interest rate and a fixed maturity, such as bonds and loans.

Value transfer: moving the value of a pension entitlement accrued up to a certain point in time to another pension scheme, in case the participant changes employer or insurer.

Z score: degree to which the actual return of a pension fund differs from the return of the standard portfolio.