

# Welcome to the PDN 2018 Annual Report

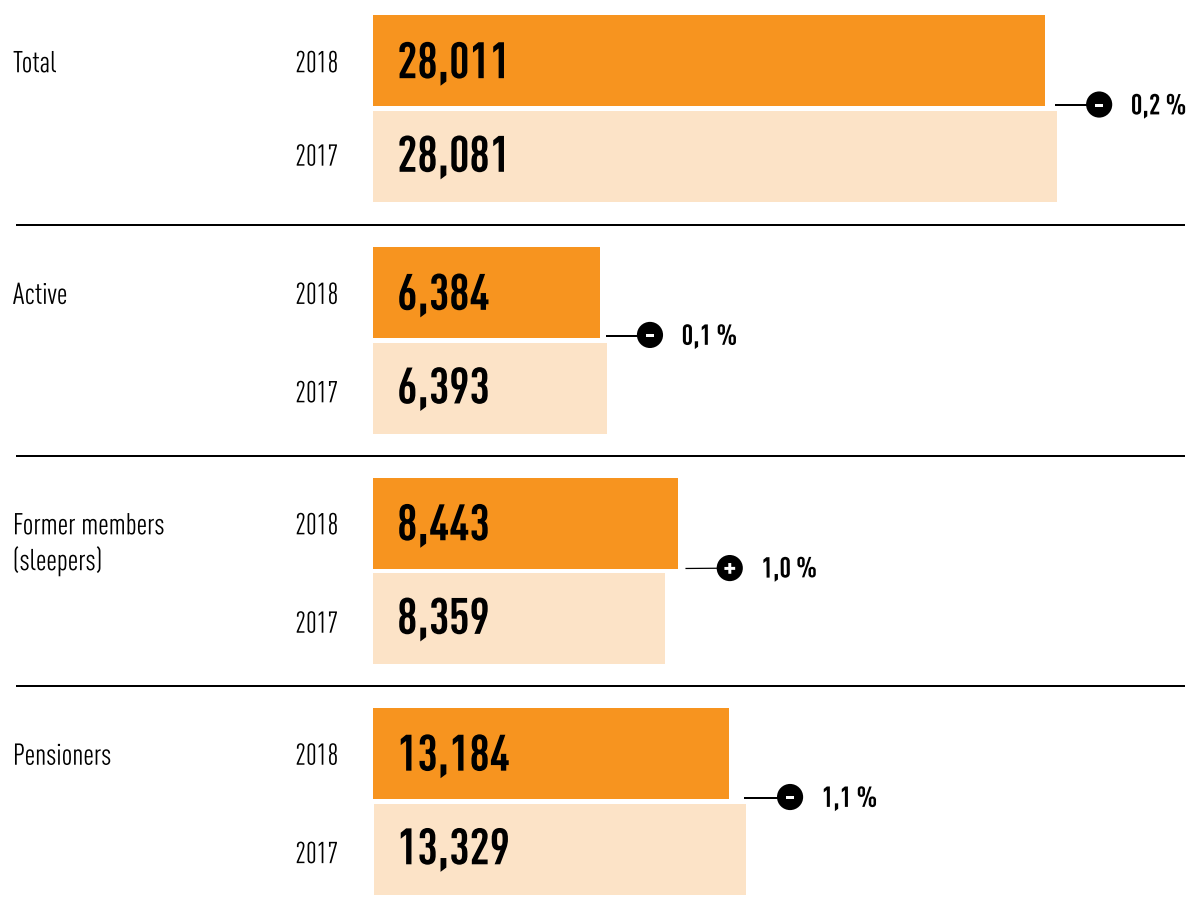
**We've made a visual summary of 2018 for you. In this annual statement, we present the most significant developments and figures for PDN and highlight the main points. What has PDN done with your pension money? How did the funding level develop and what about the investment returns?**

If you read this annual statement, you will be aware of what's going on with your own pension fund. For more detailed information about PDN in 2018, please see the full annual report (only in Dutch), which can also be downloaded from PDN's website: [www.pdnpensioen.nl](http://www.pdnpensioen.nl).

# The year 2018 in key figures

## Members

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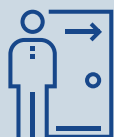


## Pension liabilities PDN

Pension liabilities PDN at year-end 2017

**6,435** MLN euro

Changes in pension liabilities in 2018



Benefit payments to pensioners

**234** MLN euro 



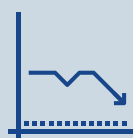
New pension entitlements accrued by members

**99** MLN euro 



Increase in liabilities due to lower interest rate

**244** MLN euro 



Other

**50** MLN euro 

Pension liabilities PDN at year-end 2018

**6,494** MLN euro

## Invested capital PDN

Invested capital PDN at year-end 2017

**7,086** MLN euro

Changes in invested capital in 2018



Pension benefit payments

**233** MLN euro 



Pension contributions received

**96** MLN euro 



Income from investments

**-132** MLN euro 



Other

**1** MLN euro 

Invested capital PDN at year-end 2018

**6,818** MLN euro

PDN FUNDING LEVEL 2018

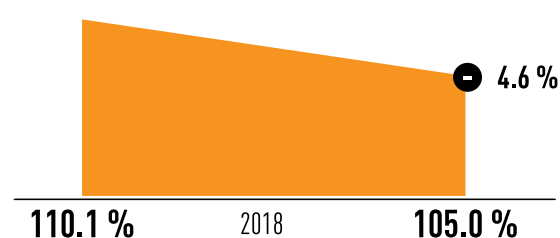
**105,0%**

# The financial position of PDN

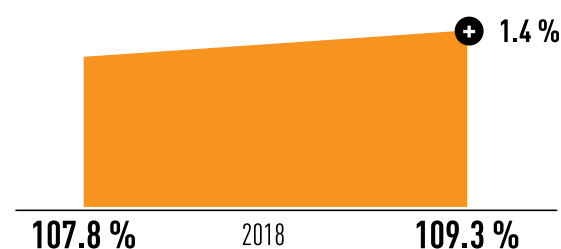
**The funding level is an important yardstick for judging the pension fund's financial situation. It indicates to what extent the pension assets are high enough to meet all future pension obligations (including, in particular, the pension benefit payments).**

Besides the funding level, a pension fund must calculate its 'policy funding level,' this being the average of the last twelve months of monthly funding levels. The policy funding level can be used to determine whether a pension fund needs to curtail accrued pensions and pensions that have commenced payment.

## Funding level

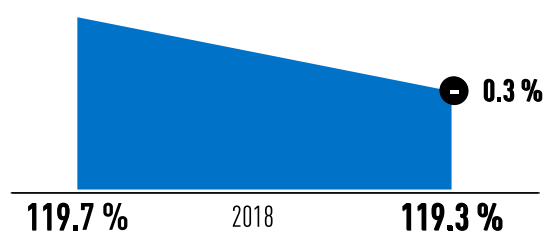


## Policy funding level



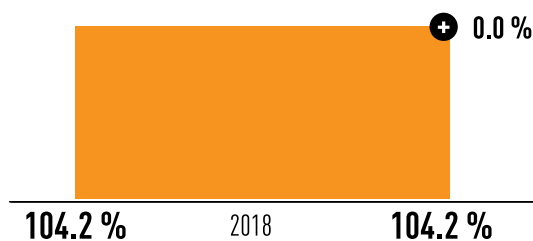
The policy funding level can also be used to determine whether a pension fund is in a deficit situation, in which case the pension fund would be required to submit a recovery plan to the Dutch central bank, DNB (De Nederlandsche Bank). The recovery plan outlines how a pension fund aims to achieve a higher funding level in the coming years. The policy funding level plays a decisive role in the fund's decision on whether to index.

## Required funding level



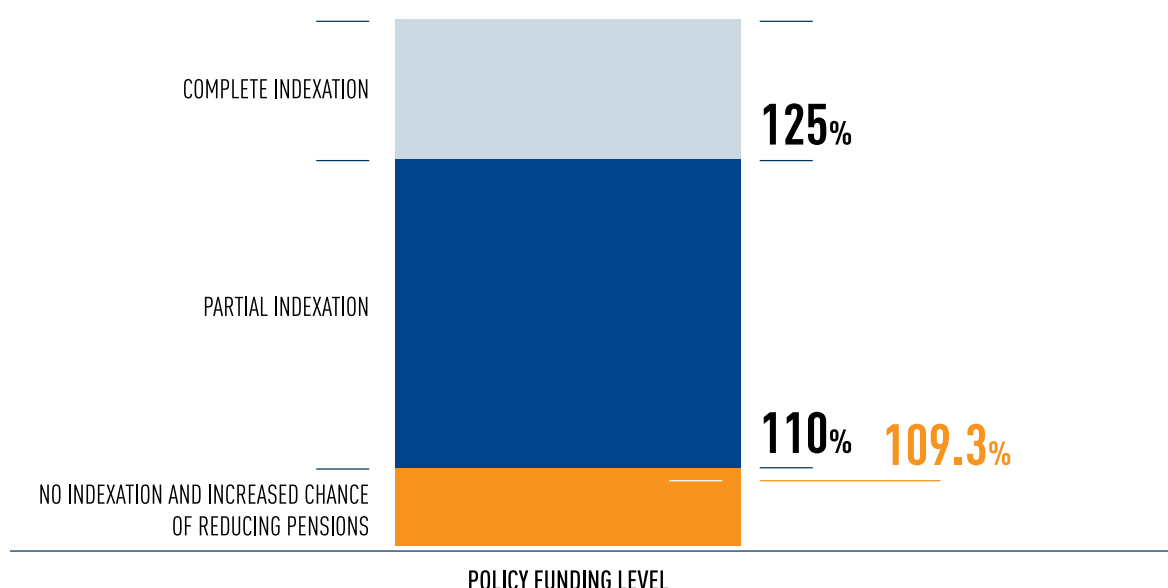
The required funding level indicates the legal level of PDN's policy funding level. If the policy funding level falls below the required funding level, PDN must submit a recovery plan.

## Minimum required funding level



The minimum required funding level indicates the absolute lower limit. If PDN's policy funding level falls below this level, there is a funding shortfall. PDN will then have insufficient capital to be able to pay future pensions. If the policy funding level remains below the minimum required funding level for five years, PDN must reduce (curtail) the accrued pensions.

## Indexation



Fortunately, the policy funding level did not necessitate any curtailment in 2018, but unfortunately neither did it allow any indexation.

Each year, PDN endeavors to raise the pensions of pensioners and the accrued pensions of former members to compensate for price developments, and to raise the accrued pensions of members to account for salary changes. The pensions and accrued pensions have not been increased in recent years. The gap that has gradually emerged has diminished the purchasing power of our pensions and the pension accrual.

Because we are subject to specific legal requirements and required buffers in relation to this area, as things look now the chances of increasing the pensions in any of the coming years are remote. If PDN's financial situation improves, we will once again be able to offer indexation, and the Board may decide to add additional indexation in compensation for indexation not granted in previous years. Despite the fact that 2018 did not necessitate any curtailment, the risk of doing so cannot be ruled out. If the funding level at the end of 2019 is lower than around 96%, the Board may decide to reduce pensions and the accrued pension entitlements. More information about indexation is available on PDN's website.

## Indexation

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**0 %   0 %**

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2017   **2018**

PDN aims to increase your pension every year and to allow it to grow in line with inflation or wage rises. We refer to this increase as "indexation."

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# How we invest the money

To be able to pay pensions every month, pension contributions alone do not suffice. A pension fund must invest. By investing, we make a profit. That is the return. In the long term, investments yield more return than a savings account. The return indicates what the investment yielded and is expressed as a percentage.

	2018	2017
<b>Total invested assets (in mln €)</b>	<b>6.835</b>	7.102

Composition of investments 2018	mln. €	weging
<b>Matching portfolio</b>	<b>3,857</b>	<b>56.4%</b>
Nominal government bonds	1,789	46.4%
Inflation-linked bonds	668	17.3%
Investment grade credits	649	16.8%
Mortgages	682	17.7%
Ground lease	69	1.8%
<b>Return portfolio</b>	<b>2,841</b>	<b>41.6%</b>
Valuta overlay	-3	-0.1%
Shares	1,335	47.0%
Bonds	596	21.0%
Real estate	350	12.3%
Alternative investments	563	19.8%
<b>Interest rate overlay</b>	<b>0</b>	<b>0.0%</b>
<b>Cash</b>	<b>137</b>	<b>2.0%</b>
<b>Total</b>	<b>6,835</b>	<b>100.0%</b>

PDN has split the investments into a matching portfolio and a return portfolio.

## Matching portfolio

The objective of the matching portfolio is to achieve a favorable risk/return profile with bonds that have a high credit rating, thus pursuing a high degree of certainty. This covers part of the interest rate risk.

## Return portfolio

The objective of the return portfolio is to realize a sufficient return in order to achieve the indexation ambition. Through an active policy, we try to achieve additional returns after costs or a lower risk profile within the permitted risk margin.

To reduce risk, PDN spreads its investments over various categories, including:

- **Inflation-linked bonds**

In these loans, which are mainly made to governments, the interest rate and repayments are linked to inflation. This means you are compensated for actual inflation and a real yield is thus recorded.

- **Investment grade credits**

The normal term of these loans, which are made to businesses with a good credit rating, is relatively short (4-5 years). Because of the good credit rating, the chance that the loans will be repaid with interest is very high and the risk is low.

- **Bonds and loans (fixed-yield securities)**

Money is lent in this way to governments and businesses worldwide. The return (so-called interest payment) is generally stable. PDN also invests in Dutch private mortgages.

- **Shares**

This is a worldwide interest in the capital of a company. Although higher returns can be expected in the longer term than on bonds, the risk is relatively high.

- **Alternative investments**

This is an asset class from which an attractive return is expected in the medium term. The investments within this sub-portfolio therefore aim for an attractive return without being dependent on so-called benchmarks (market indices, such as the AEX), and include investments in microfinance, infrastructure, and commodities.

- **Real estate**

Investments in real estate can be made in two ways: directly (houses, shops, and offices) and indirectly (shares in real estate funds). PDN only invests in indirect real estate worldwide.

- **Currency overlay**

The above investments are made in different currencies. As the value of the currency may rise or fall against the euro, the return on the internationally diversified portfolio consists partly of currency returns. To limit the impact of currencies on the fund's performance in euros, we use currency overlay, by which the fund hedges itself against exchange rate movements.

- **Interest rate overlay**

The interest rate sensitivity of the pension commitments differs from the investments, resulting in an interest rate risk. To limit this risk, part of the interest rate risk is hedged. For this purpose, investments are made in fixed-income securities and we use derivatives. The interest rate overlay also determines part of the fund's return

## **Sustainable investment (in mln €)**

	<b>2018</b>	<b>2017</b>	
Assets invested in the Netherlands	1,365	1,304	
Impact investments	226	229	

## **Impact investments**

PDN uses Impact Investments to help guide us in achieving both attractive financial returns and social objectives. Our investment decisions are based on the UN's seventeen sustainable development goals.

The complete list of the companies in which PDN invests can be found on PDN's website.

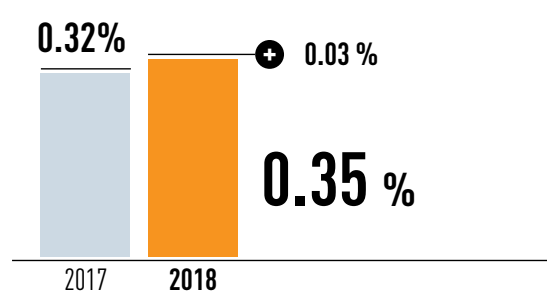


Investment return (in %)	2018	2017	
Total portfolio incl. interest rate overlay (excl. PPS)	-1.8%	5.6%	
Matching portfolio	0.6%	1.0%	
Return portfolio	-5.2%	10.9%	
Contribution of interest rate overlay	0.1%	0.1%	

Although we much prefer seeing positive returns, there is no need for you to worry about negative returns. PDN invests with a long horizon. Fluctuations are expected to be compensated over the years.

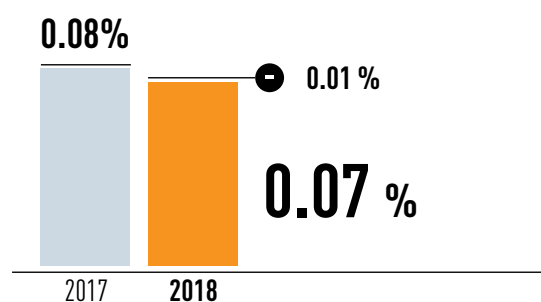
### Asset management costs

in % of average invested assets



### Transaction costs

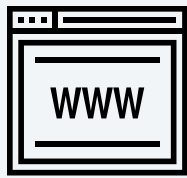
in % of average invested assets



Transaction costs are costs that have to be incurred to make and then administratively settle purchases and sales.

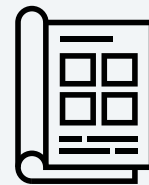
# Our means of communication in figures

## www.pdnpensioen.nl



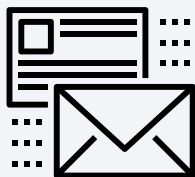
Number of visits (average)	<b>55,084</b>
Visits per day (average)	<b>151</b>

## PDN Magazine



2 editions: April en October	<b>edition 20,000</b>
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## Electronic newsletter



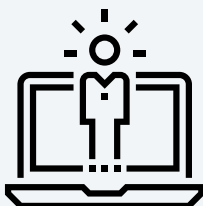
Number of subscribers	<b>4,572</b>
Sent → Opened	<b>3 → 64%</b>

## E-cards for 40<sup>th</sup> birthday



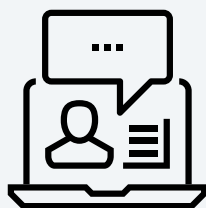
Total sent	<b>121</b>
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## My PDN Pension



Number of users	<b>54.5 %</b>
Number of visits (average)	<b>53,335</b>
Number of visits per day (average)	<b>147</b>
Number of users of Digital Mail	<b>54.6 %</b>
<b>Evaluation</b>	
NL planner, active members	<b>7.6</b>
My PDN Pension, active members	<b>7.7</b>
My PDN Pension, non-active members	<b>7.8</b>

## Pension journeys



### Q1 Pension journey 60-year olds

358 sent, number of visits 183

### Q2 Pension journey 61-year olds and 61-year olds

718 sent, number of visits 222

### Q3 Pension journey Sustainable employability

published on the website

### Q4 Pension journey Employed

published on the website

## 1<sup>st</sup> line questions

2,919

Number answered in timely manner (average)



**99.7 %**

Questions which can and have to be answered within three business days.

Evaluation 1<sup>st</sup> line questions: **7.9**

## 2<sup>nd</sup> line questions

526

Number answered in timely manner (average)



**95.8 %**

More complex questions which have to be answered within ten business days.

Evaluation 2<sup>nd</sup> line questions: **7.6**

## Appreciation



Granting of retirement pension

**7.9**

Granting partner's pension

**7.9**

Value transfer

**7.9**

112 personal conversations

**9.6**

# The opinion of the Accountability Council

**The Accountability Council (AC) is tasked with evaluating the actions of the Board and providing advice on a number of key areas. The Council is made up of eight members.**

## **In 2018, these were:**

- Two members appointed by DSM Nederland: Henk Bosch (Deputy Chairman) and Ruud van Ool
- Two members appointed by the employees: Marc Silvertand en Henk Lukkezen
- Four members appointed from and by the pensioners: Martin Aertsen (Chairman), Dirk van den Bos, John van Engelen and Harry Govers

The AC's composition changed in 2018. On April 1, 2018, Dirk van den Bos joined as a replacement for Harm Noppers, as representative of the pensioners, and on June 1, 2018, Henk Lukkezen joined as a replacement for Gerard van der Westen.



From left to right: Martin Aertsen (Chair), Marc Silvertand, Henk Lukkezen, Ruud van Ool, Henk Bosch (Deputy Chair), Dirk van den Bos and John van Engelen. Harry Govers is not present on the photo.

The Accountability Council evaluates the actions and policy of the Board, with particular attention to a number of key focus areas formulated by the Council. For 2018, these were: strategy, governance, investments, communication and succession planning.

## AC's evaluation for 2018

- The AC is positive about the amount of work that the Board has done, both as regards the accumulated gap and the strategy update and design of the governance structure.
- Unfortunately, due to external circumstances, it is not possible to grant indexation this year again.
- Despite all efforts, the various management roles and other positions on the committees have not yet been filled.
- The AC is therefore concerned about the pace at which all 'suppliers' can provide candidates of undisputed quality. According to the AC, there must be a further evaluation of the management model and its implementation at the end of 2019.

# The conclusion of the Supervisory Board

**The Supervisory Board supervises PDN's Board and evaluates the Board's performance and the processes it uses. The Supervisory Board is made up of three members.**

In 2018, these were Wendy de Jong (Chair), Jac Kragt, and Henriëtte de Lange. The Supervisory Board's composition changed at the end of 2018. Henriëtte de Lange stepped down on December 5, 2018 to accept the position of Pension Ombudsman. She was succeeded by Mila Hoekstra on January 1, 2019.

On February 15, 2019, Wendy de Jong resigned her position as chairperson to accept membership of the Supervisory Board of the Dutch Authority for the Financial Markets (AFM). Mila Hoekstra will temporarily chair the Supervisory Board.



From left to right: Jac Kragt and Mila Hoekstra

In its evaluation, the Supervisory Board concluded that:

- 1 | the overall evaluation of the Supervisory Board is positive, given the management result recorded in 2018 and the quality of the management in place.
- 2 | the role awareness between PDN and DPS has grown further. In 2018, DPS once again demonstrated its commitment to assisting the Board with advice and support.
- 3 | the right control measures (ICT and staffing) must be considered in connection with the outsourcing risk.
- 4 | it is very important to now see the Board operating on a good footing. With the recent Board changes and an increased awareness of the relationships within the Board, the Supervisory Board has confidence in this regard.
- 5 | PDN complies with the Dutch Pension Funds Code or explains any deviations from it in more detail in the management report.
- 6 | it is satisfied with the increased gender diversity on the Board. The Supervisory Board is aware that the Board is making efforts to rejuvenate the Board, even though this has proved difficult to date.

## Members of the board

**PDN's Board is made up of eight members (including the Chairman). Four members are nominated by DSM Nederland, two members are nominated by the DSM Nederland Central Works Council, and two members are nominated from and by pensioners.**

The Board wishes to express its gratitude to the Supervisory Board and the AC for their findings, recommendations, and active commitment and involvement in 2018. Some of the findings and recommendations will inform the Board's actions in 2019.

The Board's full response to the Accountability Council's and the Supervisory Board's evaluations, as well as the text of the evaluations, can be consulted in PDN's full 2018 annual report (only in Dutch).



## Changes on Board

Roel Mesters, stepped down as Board member on September 5, 2018

Marlies van Boom, appointed as an external Board member on September 5, 2018

Atzo Nicolaï, stepped down as Board member on January 1, 2019

Hans van Suijdam, stepped down as temporary Board member and chairman on May 22, 2019

Edith Schippers, appointed as Board member and chairman on May 22, 2019

## Board composition as from May 2019



**EDITH  
SCHIPPERS**

Chairman  
Appointed on recommendation by  
DSM Nederland B.V.



**MONIQUE  
VAN HEESWIJK-KUSTER**

Board member  
Appointed on recommendation by  
DSM Nederland B.V.



**MARLIES  
VAN BOOM**

Board member  
Appointed on recommendation by  
DSM Nederland B.V.



**TON  
DE BOER**

Deputy Chairman  
Members nominated from and by  
retirees



**MICHEL  
UBACHS**

Board member  
Members nominated from and by  
retirees



**PIET  
RENNEN**

Board member  
Members nominated from and by the  
employees



**EIKO  
DE VRIES**

External board member  
Members nominated from and by the  
employees

# PDN's Sustainability Report

**In the Sustainability Report 2018, PDN explains its sustainability policy and accounts for the most significant results over the reporting year 2018.**

For PDN, the sustainability policy is a way of contributing to sustainable development in the world without putting pressure on the portfolio's risk and return profile. The full sustainability report is included in the annual report and can be found on PDN's website.

Sustainability in investments is a major aspect of the investment philosophy and an integral component of PDN's investment principles. In consideration of the fund's place in society, the definition and implementation of the investment policy must be based on more than purely financial aspects. Aspects relevant to the sustainable and humane advancement of society are also observed.

**The sustainability policy is based on five pillars:**

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## **1. Exclusion**

We do not invest in activities in companies and countries that the United Nations, the European Union, or the Dutch government consider unacceptable or which run counter to the standards and values of the UN Global Compact's Ten Principles. Controversial weapons are also excluded from investment.

## **2. Impact Investments**

PDN uses Impact Investments to help guide us in achieving both attractive financial returns and social objectives. Our investment decisions are based on the UN's seventeen sustainable development goals..

## **3. Transparency**

The fund ensures total transparency in terms of pension capital investments. Our website features the names of all the companies the fund invests in.

## **4. ESG Integration**

Where possible, investments are managed and evaluated according to Environment, Social, and Governance (ESG) factors.

## **5. Engagement**

We enter into a series of intensive dialogues with companies whose practices are not in line with the UN Global Compact's principles.



# Looking ahead to 2019

In 2018, with the adoption of a carbon reduction target, the fund signed the Montréal Carbon Pledge and appointed an engagement provider, building on the steps taken in 2017.

For 2019, PDN will further investigate how the portfolio contributes towards the UN Sustainable Development Goals, how this can be communicated transparently, and whether target SDGs can be used to provide direction where possible.

The fund will also investigate whether the current voting policy should be extended to include international equity participation and whether sustainability issues should explicitly be included.

In 2019, the fund will also be involved in implementing the Covenant for International Socially Responsible Investing (ISRI Covenant) and the EU Shareholders Directive II.

Work to identify and manage sustainable investment in our liquid and unlisted investments will continue. And the fund is also committed to working with several parties to promote sustainability wherever there is common ground.

## Contact

**If you have any questions about your pension, visit [www.pdnpensioen.nl](http://www.pdnpensioen.nl)  
Or contact the Pension Desk:**

+31(0)45 5788100 / [info.pdn@dsm.com](mailto:info.pdn@dsm.com)



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### Disclaimer

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