

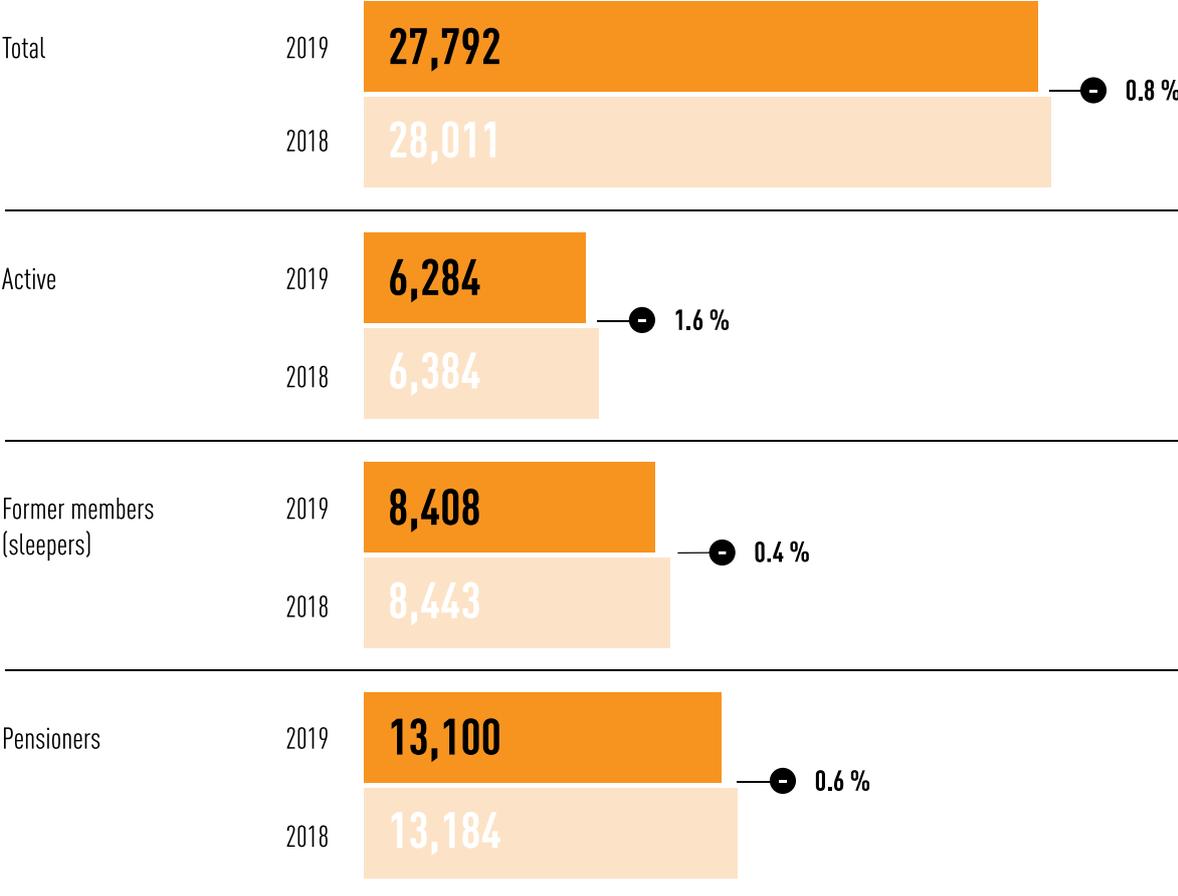
Welcome to the PDN 2019 Annual Report

We've made a visual summary of 2019 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 2019, please see the full annual report (only in Dutch), which can also be downloaded from PDN's website: www.pdnpensioen.nl.

The year 2019 in key figures

Members



Pension liabilities PDN

Pension liabilities PDN at year-end 2018

6,494 MLN euro

Changes in pension liabilities in 2019



Benefit payments to pensioners

-229 MLN euro



New pension entitlements accrued by members

+106 MLN euro



Increase in liabilities due to lower interest rate

+898 MLN euro



Other

-16 MLN euro

Pension liabilities PDN at year-end 2019

7,253 MLN euro

Invested capital PDN

Invested capital PDN at year-end 2018

6,818 MLN euro

Changes in invested capital in 2019



Pension benefit payments

-229 MLN euro



Pension contributions received

+99 MLN euro



Income from investments

+855 MLN euro



Other

-2 MLN euro

Invested capital PDN at year-end 2019

7,541 MLN euro

PDN FUNDING LEVEL 2019

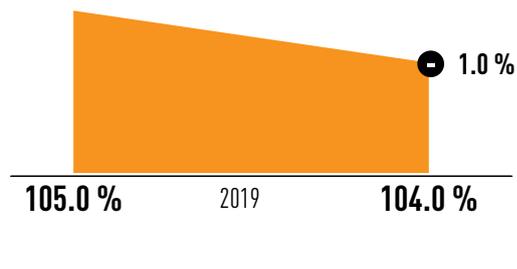
104.0%

The financial position of PDN

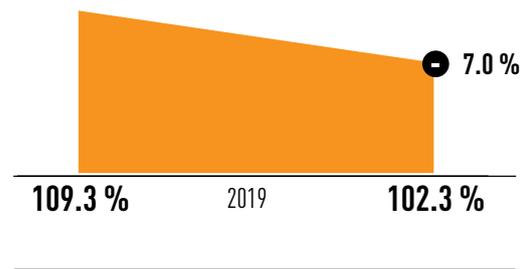
The funding level is an important yardstick for judging the pension fund's financial situation. It indicates to what extent the pension assets are high enough to meet all future pension obligations (including, in particular, the pension benefit payments).

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



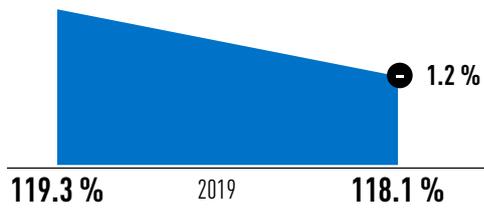
Policy funding level



PDN's funding level showed significant fluctuations in 2019 due to the interest rate volatility. At the end of 2019, the funding level was 104.0%, which is only 1.0% lower than the funding level at the beginning of the year (105.0%). 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. At the end of 2019 the policy funding level was 102.3, which is 7.0% lower than at the beginning of the year.

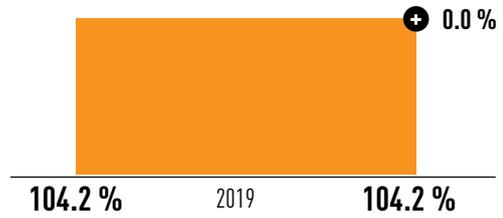
The policy funding level can be used to determine whether a pension fund needs to curtail accrued pensions and pensions that have commenced payment. The policy funding level can also be used to determine whether a pension fund is in a deficit situation, in which case the pension fund would be required 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



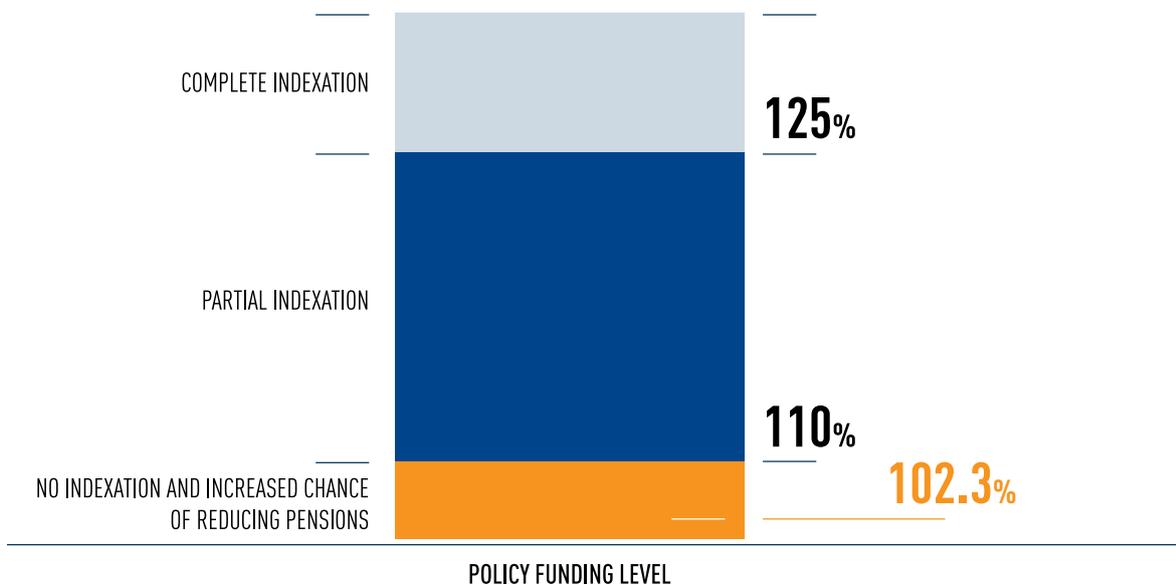
The required funding level indicates the legal level of PDN's policy funding level. If the policy funding level falls below the required funding level, PDN must submit a recovery plan.

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 2019, 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 2019 did not necessitate any curtailment, the risk of doing so cannot be ruled out. If the funding level at the end of 2020 is lower than around 92%, the Board may decide to reduce pensions and the accrued pension entitlements. More information about indexation is available on PDN's website.

Indexation



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."

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.

	2019	2018
Total invested assets (in mln €)	7,560	6,835

Composition of investments 2019	mln. €	weighting
Matching portfolio	4,131	54.7%
Nominal government bonds	1,903	46.1%
Inflation-linked bonds	708	17.1%
Investment grade credits	679	16.4%
Mortgages	749	18.1%
Ground lease	92	2.2%
Return portfolio	3,501	46.3%
Valuta overlay	4	0.1%
Shares	1,814	51.8%
Bonds	633	18.1%
Real estate	431	12.3%
Alternative investments	619	17.7%
Cash	- 72	- 1.0%
Total	7,560	100.0%

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 €)	2019	2018	
Assets invested in the Netherlands	1,372	1,365	
Impact investments	223	226	

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.

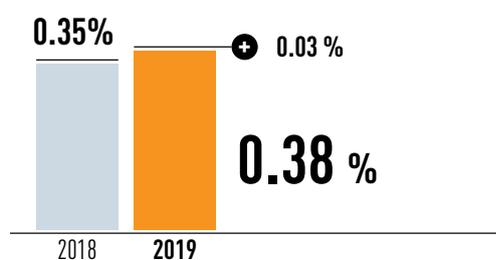
The complete list of the companies in which PDN invests can be found on PDN's website.

Investment return (in %)	2019	2018
Total portfolio (excl. PPS)	12.7%	-1.8%
Matching portfolio	7.3%	0.6%
Return portfolio	20.2%	-5.2%

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.

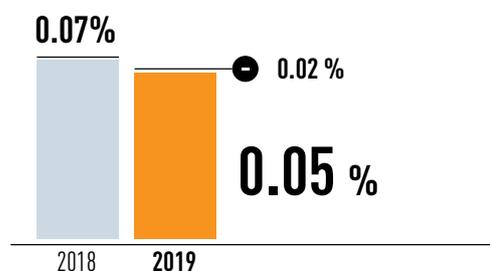
Asset management costs

in % of average invested assets



Transaction costs

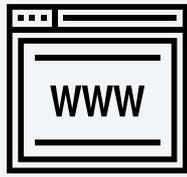
in % of average invested assets



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

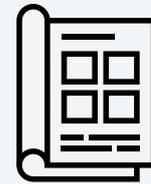
Our means of communication in figures

www.pdnpensioen.nl



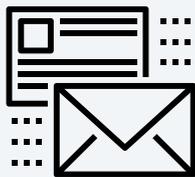
Number of visits	56,927
Visits per day (average)	156

PDN Magazine



2 editions: April en October	edition 20,000
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Electronic newsletter



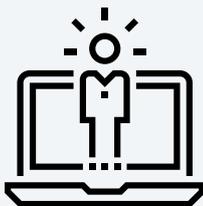
Number of subscribers	4,601
Sent → Opened	2 → 65%

E-cards for 40th birthday



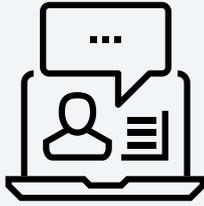
Total sent	137
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My PDN Pension



Number of users	59.8%
Number of visits (average)	74,443
Number of visits per day (average)	204
Number of users of Digital Mail	58.3%
Evaluation	
NL planner, active members	7.6
My PDN Pension, active members	7.7
My PDN Pension, non-active members	7.8

Pension journeys



Q1 Pension journey Employed

46 sent, number of visits 43

Q2 Pension journey 60-year olds

362 sent, number of visits 81

Q3 Pension journey Employed

99 sent, number of visits 47

Q4 Pension journey Surviving dependants' pension

5,116 sent, number of visits 723

1st line questions

2,212

Number answered in timely manner (average)



99.3 %

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

Evaluation 1st line questions: **8.1**

2nd line questions

746

Number answered in timely manner (average)



94.2 %

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

Evaluation 2nd line questions: **8.0**

Appreciation



Granting of retirement pension

8.0

Granting partner's pension

8.3

Value transfer

8.3

171 personal conversations

9.8

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 2019, these were:

- Two members appointed by DSM Nederland: Henk Bosch (Deputy Chairman) and Ruud van Ool
- Two members appointed from and 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

In order to safeguard continuity in the AC, with the support of the Board, it was decided in 2018 to bring forward the elections for AC members representing employees and pensioners, so that newly elected members might first serve as 'prospective' members. Early elections took place in 2019, after which three prospective members were elected to the Accountability Council, who are set to become full members on July 1, 2020.

Prospective members

- Peter Pasmans, on behalf of the employees
- Wil Beckers, on behalf of the pensioners
- Etha van de Wiel, on behalf of the pensioners

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 2019, these were: strategy, governance, investments, communication and succession planning.

AC's evaluation for 2019

The AC notes that the recommendations for 2018 and the key issues for 2019, as identified in the AC report for 2018, have been implemented to a significant extent. The various issues that have not been addressed or realized yet have been also included in the recommendations for 2019.

Summary evaluation

The AC is of the opinion that, in general, the Board has conducted a sound policy and has acted in a balanced manner in the interests of stakeholders. The Board has, in general, adequately considered comments and remarks made by the AC in its decision-making progress.

Recommendations for 2019

The AC has identified room for improvement in several areas:

- Develop a concrete action plan for effective succession planning.

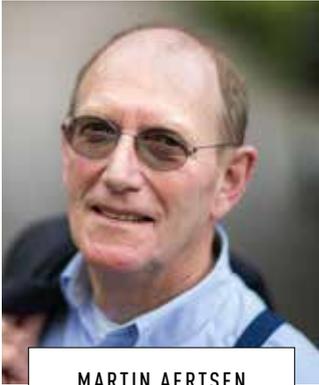
- Evaluate the management committee system introduced in 2019.
- Bring management support up to strength.
- Benchmark DPS in 2020.
- Evaluate the joint governance model in 2020.
- Evaluate the results of the risk appetite survey and define actions that may improve communication effectiveness.
- In this context, consider the decision to refrain from organizing information meetings.
- Report on progress in the field of CSR, including the carbon reduction target, in the sustainability report.
- Update policy beliefs with hard criteria related to 'solidarity contributions' between stakeholder groups.
- Develop these criteria on the basis of a strict balance between protecting accrued rights and granting new rights, setting hard limits for the fund with regard to cost-covering contributions and permitted accrual rates for new rights and communicate these hard criteria to social partners.

Key issues 2020

The AC has defined several key issues that it will focus on in 2020:

- Complete balance between the granting of new rights and the protection of accrued rights.
- External benchmarking of the DPS pension administration organization.
- Strengthening management support.
- Evaluating the joint management model.
- Improving the effectiveness of communication, particularly to young people.
- Proactive communication on developments regarding the new pension agreement and new national pension system.
- Monitoring the improvements to be made by the Board in 2020 as a result of De Nederlandsche Bank's (The Dutch Central Bank, DNB) on-site investment audits regarding investments in 2019.

The Accountability Council



MARTIN AERTSEN

Chairman, elected from and by the pensioners



DIRK VAN DEN BOS

Elected from and by the pensioners



JOHN VAN ENGELEN

Elected from and by the pensioners



HARRY GOVERS

Elected from and by the pensioners



MARC SILVERTAND

Elected from and by the employees



HENK LUKKEZEN

Elected from and by the employees



HENK BOSCH

Put forward by DSM Nederland



RUUD VAN OOL

Put forward by DSM Nederland



PETER PASMANS

Prospective member



WIL BECKERS

Prospective member



ETHA VAN DE WIEL

Prospective member

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.

Members of the Supervisory Board



MILA
HOEKSTRA



JAC
KRAGT



MARGREET
THEUNISSEN

Chairman

In performing its duties, the Supervisory Board (SB) abides by the supervision code established by the Vereniging Intern Toezichthouders Pensioensector (the Association of Internal Supervisors for the Pension Sector). In consultation with the Managing Board, the SB has identified several specific key issues to focus on in 2019.

Partly in this context, the SB has devoted special attention to the following matters in the year under review:

1. Improving and assuring administrative quality:
 - a. Continuing Boardroom dynamics sessions with external supervision.
 - b. Implementing IORP-II requirements according to the Board's decision-making, including the appointment of key officials and an updated suitability plan.
 - c. Appointing suitable Board members to upcoming vacancies in a timely fashion.
 - d. Setting up a medium-term action plan for Board succession planning.
 - e. Drawing up a lifelong learning plan for the managing board, both individually and collectively.
 - f. Evaluating the sustainability of the current joint governance model with stakeholders.
2. Harmonizing DPS's quality and capacity (manpower and ICT) with PDN's needs with regard to the administrative organization. Incorporating the outcomes of the 2019 evaluation of DPS in an action plan.
3. Prioritizing and structuring stakeholder management.

The Board has implemented many recommendations made as a result of the findings for 2018. The approval of the Board's decision with regard to the Management Report and the Annual Accounts marks the closure of a given supervisory period. This approval is part of the SB's duties and roles in the context of internal supervision, which means, among other things, that it must assess said reporting for consistency with the SB's own observations and transparency. Based on its observations, the Supervisory Board has approved the decision made by the Managing Board to adopt the 2019 Management Report and 2019 Annual Accounts.

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 2019. Some of the findings and recommendations will inform the Board's actions in 2020.

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 2019 annual report (only in Dutch).

Changes on Board

Jos Op Heij, appointed as Board member on September 30, 2019.

Board composition as of May 2020



**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**

External board member
Appointed on recommendation by
DSM Nederland B.V.



**JOS
OP HEIJ**

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



**TON
DE BOER**

Deputy Chairman
Members nominated from and by
pensioners



**MICHEL
UBACHS**

Board member
Members nominated from and by
pensioners



**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 Policy

In the Sustainability Report 2019, PDN explains its sustainability policy and accounts for the most significant results over the reporting year 2019.

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:

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 & Corporate Governance

Companies are encouraged to effect positive developments in the field of social issues and sustainability. Broader engagement processes are also being initiated to appeal to entire sectors. PDN's voting at Dutch listed companies is based on its voting policy. PDN casts votes at General and Extraordinary Shareholder Meetings of listed companies in the Netherlands.

What do our members think?

In October 2019, PDN conducted a risk appetite survey among its members, which also gauged members' stance towards sustainability. The most important outcomes can be found below.

Of the members who took the survey:

- a large majority considers it PDN's responsibility to take account of the impact on people and the environment when making investments.
- a majority does not want this to be detrimental to PDN's returns or to increase risk.
- more than a third do not know that PDN is engaged in SRI.
- the consequences of SRI on returns and risks are unclear.

PDN will evaluate the results of this survey in 2020, and will refine its policy and communication accordingly.

Sustainability in 2020

In 2019, PDN gained its first experiences with engagement, dedicating considerable time and effort to formulating policy on Sustainable Development Goals and implementing Carbon Footprint reductions.

De Nederlandsche Bank conducted a standard investment audit at PDN at the end of 2019. With regard to PDN's sustainability policy, the DNB believes that the implementation framework for the sustainable investment policy is limited. The fund will take this into account in the continued development of its sustainability policy.

For 2020, PDN is investigating whether its current voting policy should be extended to include international equity investments and whether it should explicitly include matters of sustainability.

In addition, PDN will also work on implementing the IMVB covenant and EU sustainability initiatives, such as the EU Taxonomy and EU Green Bond Standard, in 2020.

Work to identify and manage sustainability risks in liquid and unlisted investments will also continue in 2020. PDN is also committed to cooperating with multiple parties to promote sustainability at all its interfaces.

PDN will continue to shape its vision on sustainability in 2020, being keenly conscious of both its role in society and its objectives with regard to achieving good pensions for its members. This is a tremendous responsibility, especially now that the funding level is considerably lower than required. In addition, it is important that members are able to enjoy their retirement in a liveable world, which is why PDN signed the United Nations Principles for Responsible Investment in January 2020. In doing so, PDN has committed itself to embedding sustainability even more firmly in its policy and the implementation thereof.

Looking ahead to 2020

Financial position

In the first months of 2020, the funding level declined, mainly due to Covid-19.

Covid-19 & financial markets

The outbreak of Covid-19 and the resulting measures taken by governments all over the world to curb the spread of the virus have already had a significant effect on PDN's activities in the first quarter of 2020. In the first quarter of 2020, the funding level fell sharply from 104.0% at the end of 2019 to 91.2% in Q1 2020. Whether the funding level will improve in 2020 depends on how government measures in response to COVID-19 evolve.

Financial markets plummeted in March 2020, with negative returns on shares and alternative investments. The reasons for this were twofold. On the one hand, a pandemic broke out that prompted governments to take drastic measures to halt the spread of COVID-19. On the other hand, oil prices plunged following a drop in demand from China. The subsequent escalation of a creeping production conflict between Saudi Arabia and Russia then led to major movements on financial markets. Governments in Europe and the US responded with support measures for citizens and businesses on an unprecedented scale. Central banks in Europe and the US have taken measures to provide maximum support to the economy, but little can yet be said about how long the current situation will last and what impact developments and measures taken to support economic growth and financial markets will have. PDN will continue to monitor developments closely.

Pension agreement

A national pension agreement was reached in 2019. This agreement is currently being fleshed out by a steering committee consisting of various working groups. The detailed version of the Pension Agreement is expected to be completed in 2020. The Board will devote special attention to this Agreement in 2020 and proactively prepare for all matters relevant to the fund.

New Pension Agreement and Administration Agreement 2021

The current Pension and Administration Agreement is set to expire at the end of 2020. PDN has already started preparing for a new Pension and Administration Agreement, which will enter into force on January 1, 2021. The connection agreements with affiliated companies will also be renewed on this date. The new Pension and Administration Agreement will remain in force until new legislation is adopted as a result of the Pension Agreement. Two key issues in this interim period are contributions and pension accrual in the context of today's low interest rates.

New member portal

The new member portal is expected to go live in the first half of 2020. Further optimizations are scheduled for Q3 and Q4.

Contact

**If you have any questions about your pension, visit www.pdnpensioen.nl
Or contact the Pension Desk:**

+31(0)45 5788100 / info.pdn@dsm.com



Disclaimer

The information provided in this annual report by Stichting Pensioenfonds DSM Nederland, domiciled in Heerlen ('the pension fund') is of a general nature, only indicative, and subject to change. The report is solely intended to provide members with general information. While the information given is assumed to be reliable, the use of this information is entirely at the user's risk. Neither the administrator ('DSM Pension Services BV') nor the pension fund accepts any liability for loss as a result of the inaccuracy or incompleteness of information or for loss arising from the use and distribution of and reliance on this information. Rights may only be derived from the pension scheme applicable to the member.

Colofon

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