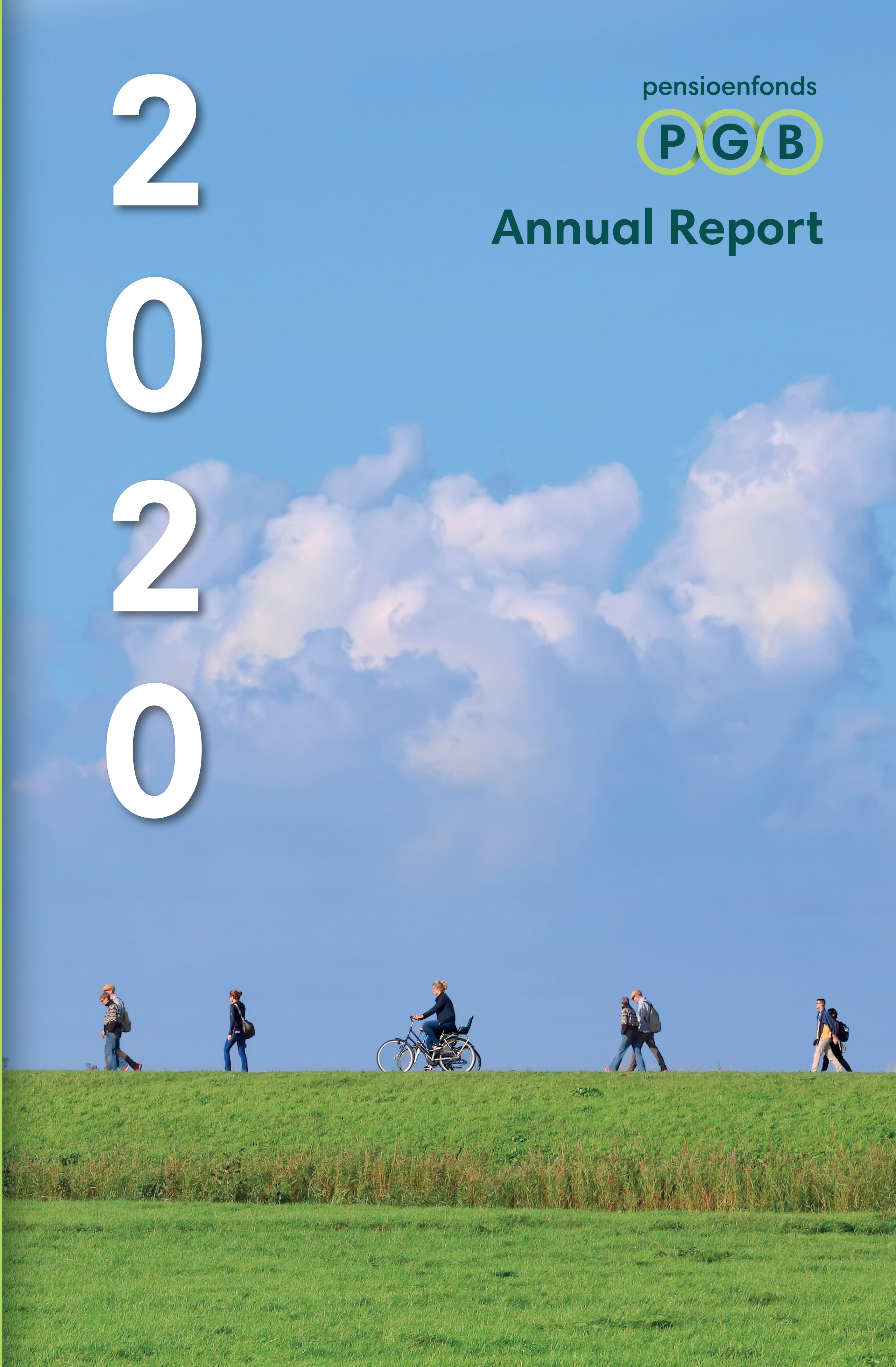
2020

pensioenfonds PGB

Annual Report



STICHTING PENSIOENFONDS PGB

2020 ANNUAL REPORT

68TH FINANCIAL YEAR

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Report of the Board

Foreword

2020 was an exceptional year for everyone, including for Pensioenfonds PGB. The coronavirus pandemic had an impact on everything: our financial situation, the financial management of affiliated employers, our services and our contacts with customers and colleagues. In our private lives, we had to learn to live with restrictions on our freedom of movement and concerns about our own health and that of our loved ones. At work, we had to get used to digital meetings and missed our quick chats at the coffee corner.

The coronavirus crisis led to accelerated digital development, regular crisis meetings and extra complexity in administration – all in a year that would have been exceptional even without the pandemic.

In June, employers' organisations, trade unions and the government concluded an agreement that will lead to a different method of pension accrual in the future. Within our own walls, our working and management methods changed. Together with Achmea, we also invested in a business with an IT platform on which we will soon be able to run our pension administration in an efficient and forward-looking manner. And we moved to a new building in Amstelveen, where everyone at the pension fund and in the administrative organisation can work together under one roof and where our business relations can also meet.

One change that felt very personal was our farewell to our fellow Board members Ruud Degenhardt, Bert Coenradie and Frans de Haan. Each one of them worked for years for the interests of participants and employers in our pension fund. They were familiar faces in the boardroom, without whom our pension fund would not be what it is today and whose commitment could always be counted on.

Looking back on the past year, we see how relatively easily our participants, employers, other parties and we ourselves accepted digital innovations. And how that changed our view of working together in the future, even though meeting physically and shaking hands is bound to return eventually.

Consultations with each other, the sector and politicians on the new pension will certainly continue for some time yet. Good guidance of our stakeholders to the new system is our most important challenge for the coming years. This is therefore a priority in our strategy for the future, together with managed growth, innovative premium schemes that reflect solidarity, cost efficient collaboration and authentic customer experiences. Partly in view of the new system, we also invest in our dynamic balance sheet and asset management and a sustainable investment policy.

Premiums have been under pressure for years due to low interest rates and we were therefore forced to increase these sharply in the past year. Increases in pensions have also not been possible for many years. As Board, we would prefer this to be different. But at the same time, we are pleased that, after the difficult start, the damage to our funding ratio caused by the coronavirus pandemic and the fall in interest rates in 2020 remained limited.

We hope that our financial situation will improve further this year, but much is still uncertain. The impact of the pandemic on the economy cannot yet be predicted and interest rates remain low. We are seeing that, on the way to the new pension system, politicians are willing to offer more scope to avoid shortfalls as far as possible, to limit premium increases and to allow reserves built up previously to be deployed for pension increases. As soon as there is clarity regarding the frameworks for the transition to the new system, we will further shape a balanced transfer as soon as possible. We will do this in consultation with the stakeholders, the accountability body and the Supervisory Board.

Finally, we would like to welcome all the new faces in our pension fund. On the Board, these are Ronald Heijn, Edwin de Jong and Hans Kamps. And there are various new employees and business partners in our organisation, together with whom we now provide for the pensions of our participants. A special word of welcome, on behalf of us all at Pensioenfonds PGB, goes to our new participants, including those from the Agricultural and food supply trade and the Travel sector. We hope that you will feel at home with us.

Amstelveen, 15 April 2021

Jochem Dijckmeester
CEO, Pensioenfonds PGB

Brief overview 2020

Participants
at the end of 2020

93,529
Participants who accrue pension

81,660
Retirees

163,123
Non-contributory participants

Current UFR funding ratio
at the end of 2020

102.6%

Policy funding ratio
at the end of 2020

96.3%

Employers
At the end of 2020

2,594

Invested capital
at the end of 2020

€32.4
billion

Return
during 2020

6.8%

Key figures 2016 – 2020

At the end of and for the years 2016 - 2020 respectively.
Note: all amounts of the key figures are rounded off to millions of euros, with the exception of the pension administration costs per participant. The percentages are calculated on the basis of amounts that were not rounded off.

	2020	2019	2018	2017	2016
Number of employers					
Affiliated employers	2,594	2,577	2,555	2,434	2,384
Number of participants					
Contributing participants	89,139	82,110	73,705	70,347	63,971
Participants with allocation due to incapacity for work	4,390	4,262	4,423	4,495	4,631
Non-contributory participants[1]	163,123	157,167	165,663	160,845	161,901
Total	**256,652**	243,539	243,791	235,687	230,503
Number of pensions					
Commenced retirement pensions	58,242	56,511	54,765	53,097	51,519
Commenced partner's pensions	22,669	22,314	22,172	21,707	21,350
Commenced orphan's pensions	749	802	809	814	863
Total	**81,660**	79,627	77,746	75,618	73,732
Pension administration					
Premium contributions	814	701	599	561	433
Pension benefits	719	694	675	652	619
Pension administration costs	33	31	28	26	23
Regular pension management costs per participant	187	188	176	175	163
Investments					
Investments for risk of pension fund, including negative derivatives	32,196	29,989	25,542	25,633	23,941
Investments for risk of participants, including negative derivatives	232	187	141	134	108
Total value of investment portfolio, including negative derivatives	32,428	30,176	25,683	25,767	24,049
Investment return of total portfolio	2,008	4,105	-589	1,607	2,344
Total return in %	6.8	16.0	-2.3	6.7	10.9
Z-score	-0.69	-0.14	-0.29	0.51	1.01
Performance test	0.18	0.58	0.60	0.87	0.67
Asset management costs as % of average invested assets	0.41	0.43	0.42	0.44	0.41
Changes in equity and solvency					
Technical provisions for pension fund's risk	30,985	28,229	24,313	23,356	23,790
Technical provisions for participants' risk	229	185	140	133	107
Equity capital	802	1,536	917	2,047	118
Current pension assets (excluding risk participants)	31,785	29,763	25,229	25,403	23,908
Minimum equity capital requirement	1,289	1,182	1,015	986	987
Equity capital requirement based on strategic investment portfolio	36,691	34,049	29,524	28,401	28,813
Free reserve (+) reserve shortfall (-) based on strategic investment portfolio	-4,906	-4,286	-4,294	-2,998	-4,905
Average actuarial interest rate in %	0.16	0.71	1.35	1.47	1.31
Current UFR funding ratio in %	102.6	105.4	103.8	108.7	100.5
Policy funding ratio in %	96.3	103.3	108.7	106.1	96.0
Real funding ratio in %	79.4	83.7	89.2	86.6	79.0
Required funding ratio in % based on actual investment portfolio	116.5	121.0	119.2	121.5	121.1
Required funding ratio in % based on strategic investment portfolio	118.3	120.5	121.3	122.1	121.5
Increase in pension payments and entitlements as at 1 January in %					
Supplement	–	–	–	–	–

[1] Participants entitled to pensions that they have not yet claimed are included in non-contributory participants.

Profile

Mission

Pensioenfonds PGB offers security for the future

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

Pensioenfonds PGB is more than money

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

Vision

Many people are uncertain about their money for later

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

Working for innovation and managed growth

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

Core values

- **Together**

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

- **Committed**

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

- **Authentic**

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

- **Clear**

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

Strategy

The strategic principles for the coming years are:

- Offering security on the path to a new pension system;
- Good cooperation with social partners and other business relations;
- Managed growth of the pension fund;
- Customer service and improving customer experiences;
- Aiming for an innovative and socially responsible investment policy;
- Offering pension products that match the needs of our participants and social developments.

2020 Summary

Pensioenfonds PGB operates in a landscape that is continually changing. The year 2020 was largely dominated by uncertainty in the financial markets, the impact of the coronavirus pandemic and further consolidation (mergers of pension funds) in the pensions sector. We also had to anticipate the changing environment with the arrival of the Pension Agreement. The implementation of the Pension Agreement and the acceleration of all technological developments in the coming years are expected to have a major impact on the sector. Pensioenfonds PGB responded to this by investing in a new platform for pensions administration. We also considered the design of a new pensions management chain in order to increase the flexibility of the organisation. And in order to create greater clarity regarding the necessary, desirable and realisable course, the strategy was tightened in 2020.

Financial developments in outline

In 2020, the invested assets rose from 30.2 to 32.4 billion euro. This increase was due partly to the global rise in share prices and partly to an increase in the value of the investments in the matching portfolio as a result of lower market interest rates. Total liabilities increased from 28.4 to 31.2 billion euro.

Current UFR funding ratio, policy funding ratio

The current UFR funding ratio amounted to 102.6% on 31 December 2020 (2019: 105.4%). The fall is primarily attributable to a fall in the interest rate term structure published by DNB. The policy funding ratio fell in 2020 from 103.3% to 96.3%.

No cuts in pensions

In extreme cases, the Board may be forced to reduce the pensions of participants and retirees on the grounds of the financial situation. Pension funds were not required to make any cuts in 2020 if their (current) funding ratio on 31 December of that year was 90% or more. Pensioenfonds PGB was therefore not required to reduce the accrued pensions and pension payouts.

No increase in pensions

The Board aims to award an increase on accrued pensions and pensions that are paying out. This is determined each year on the basis of the financial situation as at 30 September. Pension funds are permitted by law to increase pensions only if the policy funding ratio is higher than 110%. As in earlier years, Pensioenfonds PGB was therefore not able to increase pensions from 1 January 2021.

With the arrival of the Pension Agreement, the rules for supplements and cuts have been radically changed. The Pension Agreement offers pension funds more opportunities to increase pensions with realised investment yields. The downside is that pensions can also be reduced if investment results are disappointing.

Stock market year 2020

In early 2020, interest rates, company loans and share prices fell very quickly and sharply due to the potential consequences of the coronavirus crisis. The global economy shrank and unemployment rose, resulting in deflation due to loss of demand. Governments responded with lockdowns, more debt creation and more monetary easing. After the sharp 35% fall in share prices in March, many shares recovered. Later in the year, economic activity initially recovered quickly from its lowest point, partly thanks to government support measures and the first reopening of companies. The autumn brought the second wave of the pandemic, with new and increasingly stringent measures. Although the majority of companies were impacted by the virus, there were also companies that profited, such as producers of medical equipment, food producers and webshops. Airlines, travel organisations, the hospitality sector and the transport sector were all hit hard. Shares and credit bonds remained relatively expensive (or in other words, the risk payment for these investment categories, the ‘risk premium’, remained low). Central banks want to keep interest rates low for businesses and indebted governments. Pensioenfonds PGB responded with a *low for longer* scenario that assumes a situation in which interest rates will remain low for a longer period.

Return in 2020

The net return on total Pensioenfonds PGB investments amounted to 6.8% in 2020, with the benchmark at 7.5%. The investments are divided between a matching and a return portfolio. The net return on the matching portfolio was 10.8% in 2020 and that on the return portfolio 5.2%.

Socially responsible investment

In our view, socially responsible investment goes beyond wanting to avoid damage to people and the environment. We believe that as a pension fund, we can also use opportunities to contribute towards a sustainable future for participants. With our choice of investments, we influence the world around us. Although this influence is modest, it is our responsibility to use this influence positively. We are also convinced that sustainable investment produces the best results for our participants, because in this way, we reduce risks. In 2020, we therefore took our Socially Responsible Investment (SRI) policy to a higher level by explicitly opting for an *integrated* sustainability policy. This means that we will use our criteria for sustainable investment for all our investments.

Premium for PGB basic scheme raised

Low interest rates make purchasing pensions costly. With too low a premium, the ‘premium funding ratio’ deteriorates. This reflects the ratio between the premium and the purchase of a pension. The Board considers an increase in the premium to be necessary in order to do justice to the balanced consideration of the interests of participants. The Board decided in 2020 to raise the premium for the PGB basic scheme in 2021 to 28%. Under the current circumstances and within the current policy, the premium is expected to rise further, to 30%, in 2022. In the transition to the new Pension Agreement (see ‘Statutory changes’ below), the Board will assess what is balanced and a further test based on the current principles will be conducted in 2021.

Statutory changes

In 2020, important developments took place in relation to the future of the pensions system. After the social partners and the government reached an agreement in principle in 2019, Social Affairs and Employment Minister Wouter Koolmees sent an outline memorandum to the Lower House in June 2020, with an outline development of the agreement. The publication of the Bill for the reform of the system followed in December 2020. The Board is monitoring developments in this field closely and has set up a strategic working group together with the administrator. Under the direction of this working Group, a survey of the main themes of the Pension Agreement was conducted with the Board, the accountability body and the Supervisory Board. Meetings with the support base were also started on the potential realisation of the transition to the new system. In early 2021, the Board submitted a response to the Bill, calling for attention to the specific features of Pensioenfonds PGB.

Governance

In order to improve the flexibility and efficiency of the Board, as well as to increase the efficiency of its governance, the Board decided in 2020 to change the organisation of the administrative governance. Among other things, a choice was made for the ‘paritair plus model’, in which two expert Board members can be appointed. The Board also decided in 2020 to change the organisation of the committee structure. In the new structure, the number of committees has been reduced to four. These are the Pensions Management, Balance Sheet Management, Risk Management and Audit committees. The aim of this adjusted structure is an improvement in efficiency.

Developments among participants in 2020

The number of active participants and retirees increased from 165,999 to 175,189 in 2020. This was primarily due to expansion in the services, maritime contracting, process industry and (technical) wholesaling sectors. The total number of participants (including non-contributing participants) rose from 323,166 at year-end 2019 to 338,312 at year-end 2020. The number of employers rose from 2,577 at year-end 2019 to 2,594 at the end of 2020.

Balance sheet and asset management

Pensioenfonds PGB invests with the ambition to maintain the purchasing power of all participants in the pension fund against an acceptable risk. This requires the total investments of Pensioenfonds PGB to realise a total net surplus yield in the long term of about 3.4%. This concerns the net return on total investments less the return on the pension liabilities. If this succeeds, Pensioenfonds PGB can index-link pensions in the long-term in a future-proof manner. These return expectations were not realised in 2020. The net surplus yield in 2020 was 0.7% negative. The value of pension liabilities (calculated on the basis of market interest rates) rose by 7.5% in 2020, while the net return on total investments amounted to 6.8%.

Financial markets in 2020 and beyond

In the first quarter 2020, interest rates, company loans and share prices fell very quickly and sharply due to the potential consequences of the coronavirus crisis. The global economy shrank and unemployment rose, resulting in deflation due to loss of demand. Governments responded with lockdowns, more debt creation (fiscal spending) and more monetary easing. Lockdowns were destructive for many SMEs and unemployment climbed further. The loss of demand even led briefly to negative oil prices, after which oil-producing companies and countries reduced oil production. The surplus central bank liquidity and by-up programmes kept interest rates low for governments and major companies.
After the sharp 35% fall in share prices in March, many shares recovered. Later in the year, economic activity initially recovered quickly from its lowest point, partly thanks to government support measures and the first reopening of companies. The autumn brought the second wave of the pandemic, with new and increasingly stringent measures. Although the majority of companies were impacted by the virus, there were also companies that profited, such as producers of medical equipment, food producers and webshops. Airlines, travel organisations, the hospitality sector and the transport sector were all hit hard. Shares and credit bonds remained relatively expensive (or in other words, the risk payment for these investment categories, the 'risk premium', remained low). With Joe Biden as the new President of the United States, the US dollar fell and trade tensions with China eased somewhat.

According to the WHO, lockdowns will be necessary until everyone has been vaccinated in 2022. The OECD and the IMF both expect growth to recover in 2021. But the expectations are uncertain and depend partly on any new lockdowns and the fiscal and monetary policies of governments and central banks. Various European governments state a desire to deploy a large part of their support measures for improving sustainability and the environment. Central banks want to keep interest rates low for businesses and high-debt governments. This is consistent with the *low for longer* scenario of Pensioenfonds PGB, which assumes provisional 20-year swap rates of between -0.5% and 1.5% and lower inflation expectations of between 0.5% and 1.5%. In the first instance, the effect of lower interest rates will be positive for shares, which will benefit from lower financing costs and higher dividend yields versus the lower interest rates. However, lower interest rates show that central banks and investors regard the macro-economic growth environment as fragile. This fragility could lead to lower and disappointing profits and consequently, lower returns on shares.

Investment results 2020: positive investment yield

Despite the coronavirus crisis, the investment portfolio ended 2020 with a positive result thanks to the strong recovery of the markets during the year. Part of this positive result is due to the lower interest rates, from which fixed-interest securities benefited. Unfortunately, liabilities also rose in value, more sharply, as a result. The result of the return portfolio was positive but trailed its benchmark.

Table 9: *Investment returns*

	Return	
	Pensioenfonds PGB	Benchmark
	%	%
Total return	**6.8**	**7.5**
Matching portfolio	**10.8**	**9.3**
Euro government bonds, interest rate swaps and futures	23.9	-
Euro corporate bonds	1.6	-
Mortgages	0.9	-
Return portfolio	**5.2**	**6.4**
Equities	3.5	6.9
Alternative real assets*	4.1	9.4
Alternative fixed-interest securities**	3.7	4.3
***Alternative real assets**	**4.1**	**9.4**
Real estate	3.9	6.8
Infrastructure and private equity	4.4	10.9
*****Alternative fixed interest securities**	**3.7**	**4.3**
Corporate bonds, emerging markets	5.3	5.2
Bank loans	1.0	1.1
High-yield bonds	9.7	11.4
Direct loans	5.7	4.6

The net return on total Pensioenfonds PGB amounted to 6.8% in 2020, and the benchmark to 7.5%. The investments are divided between a matching and a return portfolio. In 2020, the net return on the matching portfolio was 10.8% and on the return portfolio 5.2%.

Matching portfolio

The matching portfolio includes low-risk fixed-income investments, which are intended to keep pace with (‘match’) changes in the value of the pension commitments. Through the integrated management of the matching portfolio, the portfolio management is focused on the pension commitments and not on the underlying investment categories. This makes it possible to assess the return and risk in relation to the pension commitments more effectively, without taking account of intervening benchmarks for each investment category.

The matching portfolio realised a high return of 10.8% in 2020, due to sharply lower interest rates. The return on the benchmark, the pension commitments, was 9.3%. This difference in returns was due to the increase in interest hedging by 5% in relation to the standard hedging in the first quarter. This was the result of the dynamic investment policy of Pensioenfonds PGB. Overall, corporate bonds and mortgages showed a virtually neutral return in 2020.

Return portfolio

The return portfolio contains investments in real assets and fixed-income securities with a higher risk.
The return portfolio realised a return of 5.2% for 2020. The benchmark of the return portfolio performed better, with a return of 6.4%. The three underlying investment categories all performed worse than the benchmark. In the shares investment category, the returns of the factor investments and the *equal weight* portfolio were disappointing. In addition, the performance of one of the factor mandates was especially disappointing in 2020. The alternative real assets did not keep pace with the substantial recovery of the stock markets in the fourth quarter. The return figures for this category are calculated on the basis of the valuations known at the closing of the year. These were primarily valuations from Q3 2020. As a result of this, and due to the cautious valuations due to the coronavirus pandemic, these investments do not yet show the recovery that was visible in the stock markets. The infrastructure sector was trailing the furthest. The fourth quarter valuations, which were received in 2021, did already show recovery.

The alternative fixed-interest securities underperformed the benchmark. This was primarily due to the *high yield* bonds. This portfolio was built up in 2020 and partly because of the cautious build-up and the accompanying transaction costs of this portfolio, it trailed the benchmark yields.

Dynamic policy: positive results in 2020

The balance sheet risks relating to interest rates, shares and currencies were managed on the basis of valuation (risk premiums) and sentiment (momentum). On the basis of these indicators, more interest risk was hedged overall in the first three months (in comparison with the strategic interest scale). Given the indicators, and supported by the risks of Brexit, the American presidential elections and the subsequent transfer of power and the uncertainty regarding the manageability of the second coronavirus wave, interest hedging was increased again in October. In early March, shares were sold. This was favourable because share prices then fell sharply. On the basis of the above indicators, shares were acquired again overall from May. The dynamic balance sheet management made a positive contribution in 2020 of 1.3 funding ratio points.

Z-score: negative for 2020, above the required minimum over five years

Pensioenfonds PGB must calculate a Z-score in accordance with the requirements for mandatory sectoral pension funds. A Z-score of 0.69 negative was realised for 2020 (2019: 0.14 negative). The performance test for the period from 2016 to December 2020 amounts to 0.18 (2019: 0.58). The performance test therefore remains above the required minimum of 1.28 negative.

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

Investment policy 2020

In 2020, limited changes were made to the investment policy. The main change was the new SRI policy (see the section headed 'Socially Responsible Investment'). In addition, a decision was made on the basis of the ALM study in 2019 to adjust the interest rate scale, which is now more consistent with a *low for longer* scenario and has higher interest rate hedging. This change was implemented in 2020. In addition, as a result of the coronavirus pandemic, the realisation of high-interest securities was increased in the second quarter of 2020, with higher spreads, towards the envisaged long-term allocation. The long-term reference portfolio remained unchanged.

Investment policy: dynamic, including in 2020

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

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

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

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

Socially responsible investment

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

Cause no damage

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

A positive impact

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

Towards a better world

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

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

The best result

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

Three pillars

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

Instruments

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

Multiyear forecast

What will be the key issues in the coming years? These are clear to us: offering security on the way to the future with a new pension system. In the coming years, we will be working for innovation in our services to participants and employers. Clear communication on pensions will remain an important priority, and together with our stakeholders, we will make a balanced transition to a new pension system.

We expect continued consolidation in the pensions market in the coming years. We will therefore continue our drive for managed growth. This will make it possible to absorb the necessary investments more effectively and we will also be able to share our costs with a growing number of participants in this way, and work on a better spread of investment risks.

Two major developments occurred in 2020 which will affect our route to the future: the agreement on the design of the new pension system and the coronavirus crisis.

The Pension Agreement responds to a fundamentally different way of thinking about pensions: i.e. pensions as a result of premiums paid for an investment capital. Whatever the developments that the future brings, this trend is here to stay. This perspective is more consistent with the view of participants, in particular the idea that they will acquire more of the return realised on their pension capital.

The average return for the past 10 years was around 7.9%, yet it has not been possible to increase pensions. This is often incomprehensible to participants. We notice in the talks that we conduct that the combination of 'returns but no increase in pensions' evokes emotional resistance. We have spent many hours explaining the current pension system, in letters, emails, columns, animated films and telephone calls. And we are not the only ones; almost all pension funds have to deal with this.

We explain that we have to work with interest rates that are close to the very low market rate. Moreover, very low market interest rates were also an important reason for the good returns of recent years. We add that the stringent rules of the current system and strict supervision are intended to protect participants and to secure their pensions as well as possible. But no matter how often this explanation is repeated, it struggles to 'land'.

This negative perception of the existing pension system also creates an extra stimulus to make progress with the new pension system, without closing our eyes to the many bumps in the road that we will face in the coming years.

The coronavirus crisis strengthened the trend towards more digital contact and digital working. This means that we are accelerating our innovations in digital client experiences. We want to invest here in committed and relevant service provision for participants, for example by offering broader individual financial insight.

In our approach, we want to be able to make distinctions between the large and diverse groups of participants and other stakeholders that we serve as a multi-sectoral fund. Digital tools will also help us with this. We have already gained a great deal of experience in the past year with personalised digital meetings, such as digital meetings with small groups of participants or employers, and webinars for large groups.

Digitisation also helps us to support participants in the choices that they can make about their pensions. This is an important theme for the future. The more personal responsibility that participants are given, the more important it becomes that we, as a pension fund, provide them with good guidance for this and also that we have well-designed products for those who cannot or do not wish to make choices. This is a development which we already implement and have experience with in the pension schemes, through the introduction of different investment profiles. We wish to grow further in this regard.

As already mentioned, progressing together with our stakeholders towards the new system is of great importance to us. Not only must we, as a pension fund, be prepared for the future, but the social partners in the sectors affiliated to us also have an interest in this, as do employers with company schemes and everyone who accrues or receives pensions through our fund.

The social partners, like employers with employee representation, will soon have to make a choice between two variants: the joint or flexible pensions at Pensioenfonds PGB. In the coming years, we will invest in providing guidance for that choice. Pensioners, represented by our Pensioners Association and the trade unions, are also important partners for us with regard to the new pension, as are the Supervisory Board and the accounting body, who share ideas with us on behalf of stakeholders and assess our policy.

We also work together in a different way. On the basis of our mission and vision, we want to be more than a non-profit financial institution and service provider. Through collaboration and collectivity, we can realise benefits for our participants and employers. These could include sharing knowledge, economies of scale or joint innovation to improve products and services, such as an improved product for premium schemes, the 'version 2.0' of our existing premium schemes.

We will be switching to a new system for the administration of pensions, and we also work together on this. Via our own administrative organisation PGB Pensioendiensten we have acquired an interest in the business that is developing this IT platform. We expect this platform to develop as a utility from 2023: an IT centre with which administrators from the entire pension sector can place their non-distinctive administrative processes.

It is our ambition to arrange this well for our participants and employers and to represent interests in a balanced way. Sometimes it will not be possible to meet everyone's individual interests, because simplicity, cost control and efficiency are also important for the pension results. Avoiding complexity is already becoming a challenge, because the Pension Agreement is complicated and a great deal will change all at once.

In order to do our work as the Board well, we must know which issues concern our support base. Open communication and conducting talks with each other are essential in times of change. Where possible and relevant, we want to bring together people from our support base via communities, so that they and we can help and strengthen each other.

This all sounds like a great deal of work, and indeed, it will be. We appreciate that the transition to the new system will demand a great deal from our employees, the representatives of our stakeholders and other stakeholders in the pension sector with which we work. It is important to continually keep sight of our shared goal here: to ensure that the new pensions are perceived as personal and fair. And that this leads to the restoration of trust.

Amstelveen, 15 April 2021

Stichting Pensioenfonds PGB
The Board

Financial Statements

Balance sheet as at 31 December 2020

(after appropriation of net income and expenditure)

Amounts in millions of euros

	Notes*		31 December 2020 €		31 December 2019 €
ASSETS					
Real estate and infrastructure		1,683		1,775	
Equities		12,784		14,490	
Fixed-interest securities		16,894		13,411	
Derivatives		871		397	
Investments for the risk of the pension fund	(1)		32,232		30,073
Real estate and infrastructure		16		13	
Equities		123		101	
Fixed-interest securities		88		71	
Derivatives		5		2	
Investments for the risk of participants	(2)		232		187
Technical provisions for reinsurance component	(3)		5		3
Participating interests	(4)		6		1
Property, plant and equipment	(5)		25		15
Receivables, prepayments and accrued income	(6)		159		95
Other assets	(7)		74		24
Total assets			**32,733**		**30,398**
LIABILITIES					
Foundation capital and reserves	(8)		802		1,536
Technical provisions for pension fund's risk	(9)		30,985		28,229
Technical provisions for participants' risk	(10)		229		185
Other debts and deferred income	(11)		717		448
Total liabilities			**32,733**		**30,398**
Current UFR funding ratio			102.6		105.4
Policy funding ratio			96.3		103.3

**The figures shown with the items refer to the Notes to the Balance Sheet.*

Statement of income and expenditure for 2020

Amounts in millions of euros

	Notes*		2020 €		2019 €
INCOME					
Premium contributions for pension fund's risk	(12)		775		672
Premium contributions for participant's risk	(13)		39		29
Investment results for pension fund's risk	(14)		1,990		4,081
Investment results for participants' risk	(15)		18		24
Total income			**2,822**		**4,806**
EXPENDITURE					
Pension payments	(16)		719		694
Pension administration costs	(17)		33		31
Movements in technical provisions for risk of the pension fund	(9)				
Pension accrual		893		623	
Interest added		-93		-58	
Withdrawals for pension payments and administrative costs		-733		-709	
Change in market interest rate		3,486		3,641	
Amendment of actuarial principles		-843		-	
Amendment based on transfer of rights		-2		462	
Other changes in technical provisions		48		-43	
			2,756		3,916
Movements in technical provisions for risk of participants	(10)		44		45
Net reinsurance	(18)		1		-
Net transfer of rights	(19)		2		-499
Other expenses	(20)		1		-
Total expenditure			**3,556**		**4,187**
Balance of income and expenses			**-734**		**619**
Appropriation of balance of income and expenses					
Statutory reserve			-734		619

** The figures shown with the items refer to the Notes to the Statement of Income and Expenditure.*

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