pensioenfonds PGB

ANNUAL REPORT 2022

Figures, facts & stories

STICHTING PENSIOENFONDS PGB

2022 ANNUAL REPORT

70th FINANCIAL YEAR

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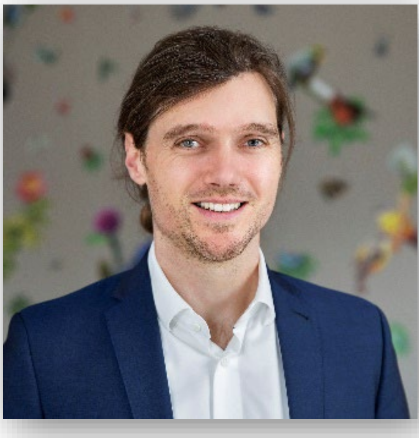
Pensioenfonds PGB at a glance

Foreword



We can safely say that 2022 was a turbulent year. In February, Russia unexpectedly invaded Ukraine, starting a war that is still causing a lot of suffering. Closer to home, we all felt the impact of rising energy and food prices and the resulting high inflation.

As a pension fund, we saw a lot of unrest in the financial markets in 2022. Returns on our investments were down. However, and this feels contradictory at times, rising interest rates also mean a reduction in the amount of capital we are required to hold in reserve to be able to pay pensions today and in the future. For the first time since the economic crisis of 2008, we were, therefore, able to increase pensions on two occasions within a short time span, which added up to a total increase of 3 percent in 2022. As inflation persisted, we decided in December to review and ultimately amend our indexation policy, also with a view to the new pension system that is set to be implemented in the Netherlands. This created scope to increase all pensions by 7 percent as of 1 January 2023. In making this decision, the Board carefully considered how it would work out for all generations, so as to maintain sufficient cash reserves to be able to pay pensions in the future.

And where the future is concerned, the bill for the new pension system was passed by the House of Representatives of Dutch parliament in December 2022 and has now been submitted to the Senate, which is also expected to pass it soon.

The imminence of new pensions legislation puts Pensioenfonds PGB on the verge of a major transition. Much of what we did in 2022 was related to preparations for the new pension system, as you can read in this report. In this respect, we liaised with our employers and industries as much as possible in making the choices they, together with us, have to make. And we kept our members informed, of course. After all, if there is one thing that is important to us, it is to ensure that they know exactly where they stand and can trust the choices we make as a pension fund. The year 2023, too, will be about the implementation of the new Future of Pensions Act.

We are very pleased, therefore, that Tim van Dijk joined our Board in December. A real addition to the Board, Tim is able like no other to capture complex matter in language we can all understand. Together with him, and with the efforts of all our colleagues at Pensioenfonds PGB, we are ready for the challenge we face, to reduce the complexity of pensions in these times of major change and to boost people's confidence in their pension.

If there is one thing we learnt in 2022, it is that we have to pull together, especially in a world as uncertain as today's, a world that keeps changing at such rapid pace. In this world, we want to offer you, when it comes to your pension, the stability you need, both in a financial and in a social sense.

This latter point is part of who we are as a pension fund. Pensioenfonds PGB will be celebrating its 70th anniversary in May. At our HQ, we recently set up a wall of history showing memorable moments from Pensioenfonds PGB's 70 years of existence. You will find a photo of this wall of history in this annual report. The wall shows that we are rooted in a long, social tradition of taking care of each other. It also shows that Pensioenfonds PGB has always delivered on that front with its own characteristic way of doing things and by creatively looking for solutions that are in the best interest of all our members.
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And this has remained unchanged until the present day. And it will remain unchanged tomorrow. And the day after.

Amstelveen, April 2023

Jochem Dijckmeester
Chairman of the Board of Pensioenfonds PGB

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.

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 focus on the following:

The Pension Accord
Together with our participants, employers and the social partners, we are moving towards a new pension system. We will take our participants through these changes by providing clear information during the transition period. We will conduct talks with social partners and employers in order to gain an insight into the requirements for our service provision and products. We will also support them in the choices they have to make. We will ensure that we are ready for the new pension system in time and will make use of the opportunities to cut costs, reduce the complexity and increase confidence.
The new pension chain

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

A more customer-centric organisation
In everything we do, we put our customers centre stage, i.e. members, employers, and social partners. Extensive analysis of the various customer groups (customer segmentation) has given us better insight into their needs. As the pension system is set to change, we want to set ourselves apart from the competition on customer centricity even more. We are accelerating the implementation of existing and new initiatives to boost customer satisfaction.

Brief overview of 2022

Number of members
year-end 2022

128,685
Members accruing pension benefits

97,259
Pension recipients

218,228
Former members

Employers
year-end 2022

4,040

UFR funding ratio
year-end 2022

113.2%

Policy funding ratio
year-end 2022

118.7%

Pension increase
in 2022

3.0%

Invested assets
year-end 2022

€28.8
billion

Return on investment
for 2022

-25.3%

Towards a new pension system together

In late December 2022, the House of Representatives of Dutch parliament passed the Future of Pensions bill [*Wet toekomst pensioenen* (Wtp)] with a large majority. If the Senate also passes the bill, the new legislation will take effect on 1 July 2023. Pension funds, and that includes Pensioenfonds PGB, will be given 3.5 years to adapt their pension schemes to the new system. In order to properly prepare all of the pension fund's stakeholders for the changes and provide them with the best possible guidance throughout the transition, we launched a special programme in 2022. We kept our members informed at all times on the progress of the new pension system (in all our communications). And we will continue to do so over the coming years. On top of that, we will frequently and proactively engage with all affiliated employers and social partners on the policy choices that we, as well as they, will have to make. And on what that means for them and for us. Based on these talks, we developed a draft product offering in 2022. In 2023, we will continue these talks and flesh out a final product offering.

In order to look after the hugely diverse interests of our stakeholders, we successfully submitted our response to the contents of the Future of Pensions bill to the Ministry of Social Affairs and Employment in mid-2022. We did so to ensure the regulations are aligned to the greatest degree possible with our specific characteristics as a pension fund that caters to various industries.

Pension chain overhaul

In order to ensure optimised and cost-efficient implementation of the new pension system, we are working on a new pension chain, both for pension management and for asset management. This also includes implementation of a new pension administration system. The new chain is supposed to lead to more efficient pension administration, including by offering more online self-service options.

In 2022, Pensioenfonds PGB and Achmea decided to pull the plug on the development of a joint pension administration platform, thus ending the Pioen project. This project has now been succeeded by the Lotus project, which sees system vendor Lumera (formerly AxyWare) working with Pensioenfonds PGB since mid-2022 to create pension administration software for the current pension scheme. The processes and the organisation are now being prepared for the transition to the new pension administration system, with the final data migration expected to take place in late 2023. We are aiming to provide our products and schemes using the new system from 2024.

Pension increases

For the first time since the economic crisis of 2008, we were able to increase all pensions in 2022. We did so in two steps that added up to a total increase of 3 percent. For the main part of the increase, we had to wait for the green light from the legislator, which came when they temporarily relaxed the rules on pension increases, subject to conditions. This meant that our members were able to benefit more from our improved financial situation. We retroactively increased pensions from 1 January 2022, using the maximum scope we had available. In December, the Board decided to adjust the fixed increase benchmark that had been effective since 2015. Deeming it no longer a balanced benchmark, the Board decided to switch to Statistics Netherlands' consumer price index that does not take government measures into account. Persistently high inflation and the upcoming new pension system were key reasons behind this decision. It again gave us greater scope to increase pensions. At the end of 2022, the decision was made to increase all pensions by 7 percent from 1 January 2023. While this does not compensate for inflation in full, it does cover a considerable part of it.

Sustainable investing

Over the past year, the Board discussed the sustainable investing course to chart for the coming years. We again took our stakeholders' preferences into account in designing our investment practices. This led to, among other things, us strengthening our resolve to invest our assets sustainably. Our commitment to sustainable investing was subsequently translated to concrete principles and goals, laying the basis for targeted further development of our sustainable investing policy. This means that we assess all our investment decisions on the return they yield, the risks involved, the costs, and on their sustainability. With this approach, we are doing our bit to ensure that our members can enjoy a good pension in a liveable world. This is possible only if we drastically reduce our carbon emissions. To help make that happen, we signed the financial industry's Climate Commitment in 2021, committing to measuring the carbon emissions involved in our investments. In December 2022, we published our own climate action plan. Our primary short-term climate goal is to halve carbon emissions from our listed investments within the shortest time span possible, and at least by 2030.

Sustainable investing is not only about the climate, but also about labour rights, human rights, social inclusion, and equality. And about fair governance and biodiversity. These are all aspects that contribute to a liveable world and that are addressed in our sustainable investing policy.

We climbed three places in the VDBO rankings of the Netherlands' most sustainable pension funds last year, and we are now in 14th place. On top of that, our annual sustainable investing report (for the 2021 financial year) was validated by an external auditor on six selected sustainability indicators for the first time this year.

A more customer-centric organisation

Pensioenfonds PGB wants to increasingly set itself apart on customer centricity. Customer satisfaction levels among our members, social partners, and employers are more crucial than ever in that respect. We took important steps last year to raise customer satisfaction levels. One step was the go-live of our new MijnPGBpensioen member portal. Another was the upgrade to the Financial Insight Tool (FIT) we offer on our member portal. These improvements have brought greater convenience for users and even clearer and more personal financial insight. We also started preparations for a video call option for members when they need guidance in making their pension choices.

The customer-centric transformation we have embarked on requires accelerated implementation of existing and new initiatives. We are using up-to-date market and customer insights in our propositions (our products and services and the Future of Pensions Act programme), and in our communications. This includes valuable insights obtained through our customer panel and the surveys we run among our members, which will continue in 2023. We continuously check whether our offering and communications are still aligned with our stakeholders' needs and preferences. In this context, we believe that *digital* is not the opposite of *personal*. In all digital developments, we put personalised information, accessibility, and personal contact first.

Key figures for 2018-2022

At year-end and for the years 2018 to 2022

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

	2022	2021	2020	2019	2018
Number of employers					
Affiliated employers	4,040	4,004	2,594	2,577	2,555
Number of members					
Premium-paying members	123,062	119,740	89,139	82,110	73,705
Members with pension entitlement on account of occupational disability	5,623	5,305	4,390	4,262	4,423
Non-contributory members[1]	218,228	217,105	163,123	157,167	165,663
Total	**346,913**	342,150	256,652	243,539	243,791
Number of pensions					
Retirement pensions in payment	70,141	67,792	58,242	56,511	54,765
Partner's pensions in payment	26,269	25,481	22,669	22,314	22,172
Orphan's pensions in payment	849	851	749	802	809
Total	**97,259**	94,124	81,660	79,627	77,746
Pension administration					
Premium contributions	985	923	814	701	599
Benefits	825	766	719	694	675
Pension administration costs	44	36	33	31	28
Regular pension management costs per member	195	166	187	188	176
Investments					
Investments at the pension fund's risk including negative derivatives	28,537	36,568	32,196	29,989	25,542
Investments at members' risk including negative derivatives	288	311	232	187	141
Total value of the investment portfolio including negative derivatives	28,825	36,879	32,428	30,176	25,683
Investment income from total portfolio	-9,274	2,185	2,008	4,105	-589
Total return on investment as a %	-25.3	6.2	6.8	16.0	-2.3
Performance compared to the benchmark (Z score)	0.65	0.75	-0.69	-0.14	-0.29
Performance test	0.13	0.07	0.18	0.58	0.60
Asset management costs as a % of average invested assets	0.53	0.43	0.41	0.43	0.42
Changes in equity and solvency					
Technical provisions at the pension fund's risk	25,253	31,621	30,985	28,229	24,313
Technical provisions at members' risk	328	312	229	185	140
Equity	3,393	5,380	802	1,536	917
Pension assets held	28,974	37,313	32,016	29,950	25,370
Minimum capital requirement	1,073	1,349	1,289	1,182	1,015
Capital requirement based on strategic investment portfolio	30,786	38,002	36,691	34,049	29,524
Distributable reserve (+) reserve shortfall (-) based on strategic investment portfolio	-1,812	-689	-4,675	-4,099	-4,154
Average notional interest rate as a %	2.58	0.56	0.16	0.71	1.35
UFR funding ratio as a %	113.2	116.8	102.6	105.4	103.8
Policy funding ratio as a %	118.7	111.5	96.3	103.3	108.7
Realistic coverage ratio as a %	90.7	89.7	79.4	83.7	89.2
Capital requirement as a % based on actual investment portfolio	115.8	123.4	116.5	121.0	119.2
Capital requirement as a % based on strategic investment portfolio	121.6	120.0	118.3	120.5	121.3
Increase in pensions in payment and pension entitlements as of 1 January as a %					
Pension increase[2]	3.0	–	–	–	–

[1] *Pension beneficiaries who are not yet drawing their pension are counted as part of the non-contributory members.*

[2] *As of 1 January 2023, pensions in payment and pension entitlements have been increased by 7.0 percent.*

Outlook

Pensioenfonds PGB wants to keep delivering on its promise over the years to come, i.e. to offer stability when it comes to pensions. Especially in the current times, with so many changes on a social, economic, and geopolitical level, offering stability is extra important. Both for our members and for all affiliated employers and industries. Our ambition is to provide affordable, modern pensions that allow members to maintain their spending power in the long term as much as possible. In the following, we will highlight three key topics: the new pension system, sustainable investing, and our customer approach. Three of our Board members will explain how we intend to address these topics this year and in years to come.

The new pension system

Edwin de Jong: 'We primarily want to make life easier for our members, employers, and industries as we transition to the new pension system. In 2023, a lot of work will, therefore, go into defining the various propositions: the various pension choices that industries and employers can make under the new system. In order to make these choices easier, we are reducing the propositions to a selection, based on input from the talks we held with our affiliated industries and employers. Needless to say, we will keep investing in providing them with guidance in making these choices in 2023. We are also keeping a close eye on balance; the transition must work out more or less the same for all members. Pensioenfonds PGB is responsible for the proper implementation of pension schemes in a wide range of industries. It is very important, therefore, that we keep working together. With the prospect of final legislation being adopted in 2023, we are working towards a clear design for the future pension schemes and the associated customer-centric services.'

Sustainable investing

Frans van de Veen: 'In 2023, we want to apply a clear focus in the various areas that are relevant in the sustainability domain. Since you simply cannot do everything all at once, we intend to centre more on those areas where we can make a difference. We are going to step up our impact investing: we invest specifically in companies and projects that verifiably contribute to our sustainability goals. We are, for example, seizing investment opportunities and contributing to a socially responsible future for our members.

In doing so, we carefully assess which domains are the best fit with Pensioenfonds PGB. These include the climate, housing, food and health, decent work, and freedom in work. It is great that we will be stepping up our focus on these issues. To make sure our stakeholders get a say in our sustainable investing policy, we will again conduct surveys among our members, industry consultative committees, and employers, as well as seek input from the accountability body and the Supervisory Board. This will allow us to stay tuned in to what members find important when it comes to sustainability. And it will contribute to our overriding aim of providing good pensions for our members in a liveable world.'

Our customer approach

Ronald Heijn: 'The schemes in the new pension system call for a different customer approach. We have already taken several steps in that direction over the past period, such as focusing more on the customer experience. We are getting our members more closely involved. We conduct more regular surveys to find out what matters to our members and what drives them. We listen to customer signals from employers and members and get together fortnightly to discuss where and how we can improve. Another important aim for us is to increase our members' insight into their finances. We are giving them access to more and more digital ways of managing their pension. But we are not done yet. Our members rated us with a 7.2 out of 10 last year. While this is a good rating, we are going for a much higher rating. We also asked Stichting Gouden Oor to assess to what extent listening to customers is in our DNA. This foundation has set out to boost customer listening at organisations and to get organisations to act on customer feedback. We have taken the recommendations from their assessment report on board. This spring, they will audit our customer listening capability once again, and we hope to receive Golden Ear Recognition from them. Now more than ever, it is important that we pursue customer intimacy, because we have seen that many people are uncertain about their pension. There is also widespread mistrust in political, social, and financial bodies. We want to eliminate this mistrust by offering our members stability, not only financially but also socially. By that I mean that we want to keep approaching members personally. One step we have taken is to appoint an internal ombudsman. Members can turn to her directly whenever they are unable to work something out through the normal channels. After all, precisely in these times of individualisation there is a need for solidarity. Our members need to feel that they are not on their own. We are doing it together.'

Pensioenfonds PGB in 2022

Balance sheet and asset management

Pensioenfonds PGB invests pension assets to make them grow compared to the liabilities. This is how we ensure the best possible pension for our members. Investing involves risk, and 2022 was a turbulent year. The war in Ukraine and high inflation created a lot of unrest in the financial markets. 2022 was a bad year for investing, with negative return on investment of -25.3 percent. The interest rate increase resulted in a lower market value of the pension liabilities. The value of the liabilities was down from 31.9 billion at year-end 2021 to 25.6 billion (which includes the increase in liabilities due to the pension increase) at year-end 2022. This meant that the liabilities fell at a greater rate than the value of the investments, which had a positive effect on the coverage ratio and, with that, on our ability to meet our pension commitments.

The financial markets in 2022

Over the first half of 2022, inflation and interest rates rose significantly. High inflation, monetary tightening, and fear of an economic slowdown led to falling share prices and reduced availability of credit. Rising interest rates resulted in a sharp decline in the value of liabilities. The drop in the value of the equity was less severe because we chose not to hedge interest rates in full, which pushed up the coverage ratio.

The ongoing Ukraine crisis and western sanctions led to rising food and energy prices worldwide, especially gas and electricity prices in Europe, which also led to the euro falling against other currencies. Various lock-downs in China continued to disrupt supply and demand structures. Scarcity and construction restrictions in the Dutch housing market drove up property prices, until rising mortgage interest rates cooled down the housing market to some extent.

Investment results in 2022: negative return on investment

Return on investment was negative in 2022, coming in at -25.3 percent. Return on investments intended to hedge the interest rate risk (matching portfolio) was negative at -44.7 percent. This is the result of the considerably higher interest rate. The average notional interest rate set by the Dutch central bank (De Nederlandsche Bank), for example, rose from the 0.56 percent at year-end 2021 to 2.58 percent at year-end 2022.

Rising interest rates push up the value of the matching portfolio. The purpose of the matching portfolio is to stay in step with the interest rate sensitivity of the pension liabilities. The value of the pension liabilities fell at a greater rate than the value of the investments, resulting in a positive development of the coverage ratio.

The return on the return portfolio, which contains mainly shares, was -10.1 percent over the full calendar year of 2022. Stock markets were affected by the war in Ukraine, higher interest rates and fears of a recession.

Table 3: *Return on investment*

	Return on investment	
	Pensioenfonds PGB	Benchmark
	%	%
Total return on investment	**-25.3**	**-26.0**
Matching portfolio[5]	**-44.7**	**-44.1**
Euro government bonds	-30.2	-
Euro corporate bonds	-9.9	-
Mortgages	-17.5	-
Return portfolio	**-10.1**	**-12.8**
Shares	-12.5	-14.2
Alternative real assets*	16.0	-11.0
Alternative fixed-income securities**	-7.2	-7.4
***Alternative real assets**	16.0	-11.0
Property	8.4	-10.8
Infrastructure	28.4	-10.7
Private equity	-0.9	-13.5
****Alternative fixed-income securities**	-7.2	-7.4
Corporate bonds from emerging markets	-11.2	-14.8
Bank loans	-3.0	-2.1
High-yield bonds	-11.5	-11.3
Direct loans	-2.3	-3.3

Matching portfolio

The matching portfolio contains low-risk fixed-income securities that are intended to match the development of the value of the pension liabilities. The matching portfolio is managed on an overall basis, meaning that the matching portfolio management focus is on the pension liabilities and not on the underlying investment categories. As a result, it is possible to make efficient use of the return on investment and the risk of the various available instruments, without having to take into account intermediate benchmarks for each investment category.

Due to the rising interest rates, return on the matching portfolio was negative for 2022, coming in at -44.7 percent. This negative return is the result of the use of interest rate derivatives (leverage) in the 'euro government bonds' portfolio (-30.2 percent). Interest rate derivatives are, as per Pensioenfonds PGB' matching policy, used to increase the investments' interest rate sensitivity and thus better match this to the interest rate sensitivity of the pension liabilities. The matching portfolio represents around 40 percent of the total investment portfolio and is not sufficient to be able to achieve the targeted interest rate hedge. Therefore, the matching portfolio uses not only euro government bonds, euro corporate bonds, and mortgages, but also interest rate derivatives to increase investments' interest rate sensitivity. The aim is to better align the investments with the pension liabilities. The negative impact of these interest rate derivatives comes to the fore in the difference between the total return on the matching portfolio and the returns on euro government bonds, euro corporate bonds, and mortgages. The return on the benchmark, i.e. the pension liabilities, came in negative at -44.1 percent. The difference in return between the matching portfolio and pension liabilities is largely due to the negative impact of the credit risk on corporate bonds and mortgages in the matching portfolio.

Return portfolio

The return portfolio contains investments in real assets and in higher-risk fixed-income securities. The return on the return portfolio came in at -10.1 percent in 2022, outperforming the benchmark, which posted a return of -12.8 percent. In fact, the return portfolio outperformed the benchmark across the board. When it comes to shares and alternative real assets, factor investing and asset management respectively led to better returns. The best returns, however, came from alternative real assets, where investments in infrastructure in particular had a very good year with a return of 28.4 percent.

[3] *This total sum is influenced by the returns on interest rate swaps and interest rate futures that are not recognised separately in the return figures shown here, given that these do not have a relevant market value. As a result, the total return for 2022 is higher than would be expected based on the underlying figures presented.*

Dynamic policy: neutral contribution in 2022

The balance sheet risk with respect to interest, securities, and foreign currency is mitigated based on measurement (risk premium) and sentiment (momentum). Given the negative sentiment in the stock markets, share allocation was gradually lowered in 2022 from a 4.2 percent overweighting to -6.1 percent of the balance sheet as at year-end 2022. These equity position reductions were implemented in North America, Europe, and the Pacific. After initially looking strong, the US dollar weakened, which came with a more attractive measurement and led to a slight increase in the dollar hedge to 80 percent (the standard hedge is 75 percent). In the fourth quarter, the foreign currency hedge of the US dollar was upped further to 90 percent. In summary, the dynamic balance sheet management policy for 2022 resulted in a neutral contribution of 0.01 coverage ratio point (2021: 0.1 coverage ratio point).

Performance compared to the benchmark (Z score): positive for 2022, topping the required minimum over five years

Like all other industry pension funds, Pensioenfonds PGB is required by law to calculate the so-called Z score, which reflects the fund's performance compared to the benchmark. The Z score for 2022 came in at 0.65 (2021: 0.75). The performance test result for the 2018-2022 period is 0.13 (2021: 0.07), which puts performance above the required minimum of -1.28.

The decree on exemption from compulsory affiliation to an industry pension fund [*Vrijstellingsbesluit Wet Bpf 2000*] offers companies the possibility to opt out of affiliation with an industry pension fund when, for example, the performance test performed over a period of 5 calendar years shows that the actual return on investment achieved by the pension fund is considerably lower than the return on the standard portfolio set by the pension fund. Return is deemed considerably lower when the outcome of the performance test calculation is lower than the required minimum of -1.28. This is not the case for Pensioenfonds PGB.

Investment policy for 2022

In 2022, the fund's ambitions and risk appetite were established based on the outcome of the member survey conducted in 2021. Given the outcome of the member survey, consultations with social partners, and the results of the asset liability management (ALM) study, Pensioenfonds PGB opted to maintain the leading spending power ambition and to lower the risk profile where possible. Based on the ALM study, the risk profile of the investment portfolio was reduced by adjusting the interest rate scale. The revised interest rate scale has a higher floor (50 percent) compared to the interest rate scale from 2019.

The method used for portfolio construction and the bandwidths for the long-term portfolio were further refined in 2022. Compensation for the relative risk for all investment categories has stayed virtually the same, resulting in a comparable reference portfolio for 2023.

In 2022, the strategy plan for the matching portfolio was recalibrated by refining the curve position bandwidths. The strategy plan for property was recalibrated in 2022 by raising the *alternatives* (formerly 'other') sector, thus giving more weight to the emerging sectors.

Investment policy: takes the coverage ratio into account

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

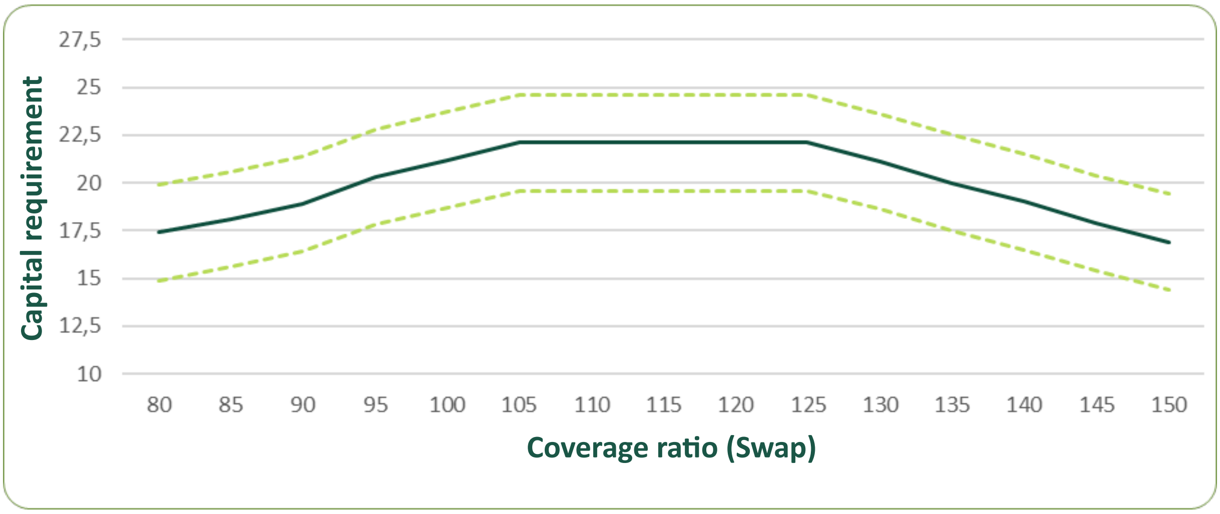
Weighing up the likelihood of indexation and the risk of pension cuts is a dynamic balancing act:

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

Risk budget

The degree of risk taken, i.e. the risk budget, moves in step with the nominal coverage ratio based on market value and is recorded in the policy matrix. It is the sum of mainly share, interest rate, foreign currency, and credit risk, and it is captured in the form of a percentage of the minimum capital requirement (VEV in Dutch). This percentage is based on a model that uses the Dutch central bank's minimum capital requirement method.

Diagram 1: *Risk budget with nominal coverage ratios*



Pensioenfonds PGB is able to vary the risk budget slightly, i.e. to take slightly more or slightly less risk than required by the matrix. The scope available for such variations is capped at 2.5 capital requirement percentage points either way. Adjustments to the risk budget are made based on two indicators, market conditions (momentum) and return projections (risk premium). If these indicators are positive, risk can be increased by a maximum of 2.5 percentage points. If the indicators are negative, risk can be reduced by a maximum of 2.5 percentage points (see diagram 1). At year-end 2022, the amount of risk taken based on the minimum capital requirement method was 16.1 percent, while the risk budget was 21.9 percent (see diagram 2). This figure of 16.1 percent is the amount of risk taken under the capital requirement method that remains after use of the options for share protection. Without these options, the risk budget is 19.7 percent and within the limits set for the strategic risk budget. They are not included in the policy matrix, because the options offer only additional protection against drops, while otherwise not influencing the risk of the portfolio itself.

Diagram 2: *Risk taken*

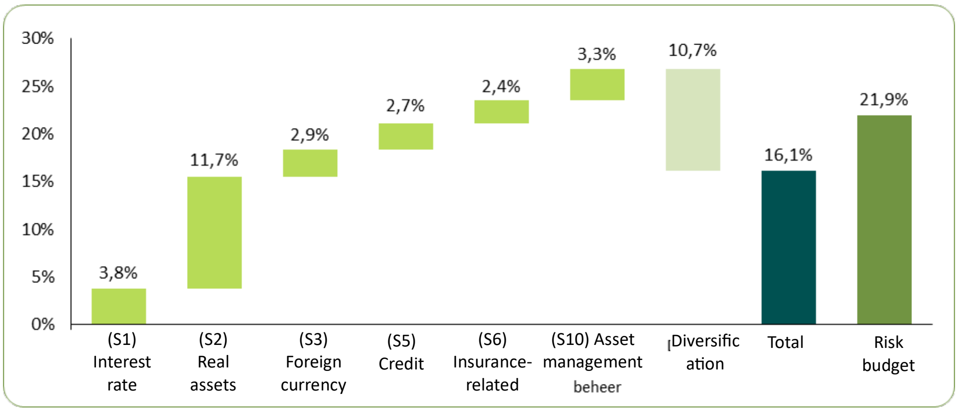


Table 4: *Investment portfolio*

	Actual portfolio 31 December 2022	Strategic portfolio 31 December 2022
	%	%
Matching portfolio	**37.5**	**41.0**
Euro government bonds	12.5	17.5
Euro corporate bonds	19.2	18.4
Mortgages	5.8	5.1
Return portfolio	**62.5**	**59.0**
Shares	42.8	41.9
Alternative real assets*	8.0	7.5
Alternative fixed-income securities**	10.7	9.6
Foreign currency hedge	1.0	-
***Alternative real assets**	**8.0**	**7.5**
Property	3.6	3.3
Infrastructure	3.5	3.4
Private equity	0.9	0.8
****Alternative fixed-income securities**	**10.7**	**9.7**
Corporate bonds from emerging markets	2.2	2.0
Bank loans	6.1	5.5
High-yield bonds	1.9	1.7
Direct loans	0.5	0.5
Interest rate hedge rate	**67.5**	**67.7**
Foreign currency hedge rate	**55.3**	**55.5**

Portfolio construction: matching and return portfolio

In an asset liability management study, the focus is primarily on the policy matrix and interest rate hedging. This is overall asset allocation. In portfolio construction, the risk budget is translated to the actually targeted proportion of the matching to the return portfolio, and within that to the various investment categories. Table 4 shows the actual and strategic spread of the matching and return portfolio and the underlying investment categories as at year-end 2022.

Matching portfolio

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

Return portfolio

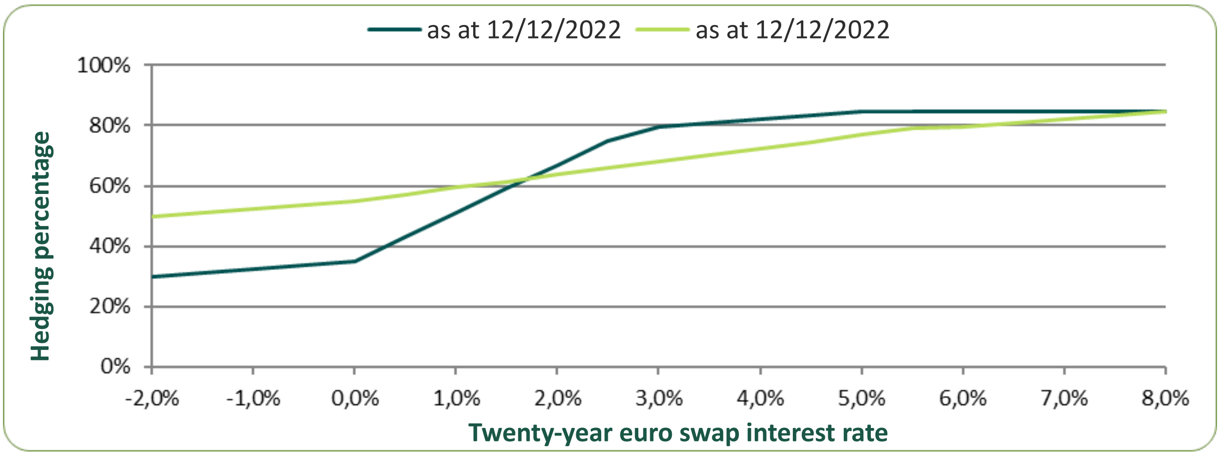
The return portfolio is made up of the following investment categories: shares, property, infrastructure, private equity, and alternative fixed-income securities. Shares make up by far the largest investment category. The shares investment category is subdivided into developing and emerging markets. Within these developed and emerging markets, two investment strategies are used, namely passive investing and factor investing. In 2022, the factors recovered, which contributed to the return on investment.

Interest rate hedging

The interest rate hedging policy was developed in order to best align the interest rate risk to which Pensioenfonds PGB is exposed with the fund's ambition and risk profile. Interest rates are hedged dynamically, with hedging linked to the level of the twenty-year euro swap interest rate (see diagram 3). The interest rate hedging policy is implemented through the matching portfolio.

The sharp interest rate rise of early 2022 meant that interest rate hedges were also scaled up significantly over that period. Having a high interest rate hedge in place makes the fund sensitive to high inflation scenarios. After all, high inflation is likely to trigger interest rate rises and reduce the value of the pension liabilities. However, in a scenario of rising interest rates, a high interest rate hedge has an adverse effect on the value of the matching portfolio, which, in turn, limits our scope to compensate for inflation. With this in mind, the interest rate was temporarily frozen at 65 percent. At the end of the year, the interest rate hedging policy was amended. While the interest rate hedging policy is still based on the same principle of higher interest hedging when interest rates are high, these higher interest rate hedges are now only implemented with higher interest rates. The diagram also shows the higher floor of a minimum of 50 percent interest rate hedging to reduce risk exposure when interest rates drop.

Diagram 3: *Interest rate hedge as at 1/1/2022 and 12/12/2022, depending on the twenty-year euro swap interest rate*



Share risk control

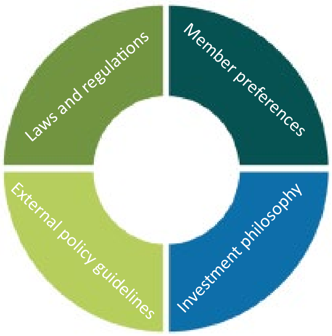
In order to be able to partly protect the pension capital against extreme share price drops, Pensioenfonds PGB uses share risk control. In response to certain trends in the market, share index put options are bought, on the condition that the purchase costs are acceptable and compensate the risk. This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

The control measure is not of a continuous nature, as that would be too costly. It may be, therefore, that no share index put options are held in Pensioenfonds PGB's investment portfolio when share prices drop significantly. In 2022, market sentiment was negative and protection was purchased. As the stock markets recovered partly in 2022, the dynamic share risk control measure resulted in a negative contribution of 88 million euros in 2022.

Foreign currency hedge

Part of Pensioenfonds PGB's capital is invested in currencies other than the euro, mainly in US dollar, pound sterling, and Japanese yen. The risk of investing in foreign currencies is that of their value dropping against the euro, which leads to the value of investments measured in euros falling. Pensioenfonds PGB partly hedges this risk through its foreign currency policy. Deliberately not fully hedging the foreign currency risk ended up contributing 276 million euros in 2022.
The foreign currency policy is dynamic for US dollar, pound sterling, and Japanese yen, whereby we look at interest rate differences, spending power differences, and market trends. Based on these indicators, the foreign currency hedge for each foreign currency can be anywhere between fifty and one hundred percent. This foreign currency policy did not produce an additional positive or negative contribution in 2022. All other currencies of developed nations are (statically) hedged at 75 percent. The currencies of emerging nations are not hedged.

Sustainable investing



The framework of our sustainable investment policy

In determining the sustainable investing policy, it is first and foremost important to us that our members and employers feel heard in the choices we make. In other words: we want support for the choices we make in this regard. That is why we regularly conduct studies into the preferences of our supporters in the field of sustainable investing. Secondly, we also have to deal with laws and regulations in the field of sustainable investing and there are external guidelines we must and want to take into account. And then there is our own investment philosophy, which is the fourth key factor underpinning our sustainable investing policy.
The framework for our policy is, therefore, made up of these four factors, as captured in the figure to the right.

The objective

Our main duty is to ensure a good pension in a liveable world. We do not see sustainable investment and a high return as a contradiction. They actually reinforce each other. We believe that sustainable investment in the long term contributes to a better return-risk profile of the investments in the fund. That is why sustainability is fully integrated into our investment process. This means that in all our investment decisions, we weigh up return, risk, costs and sustainability.

Investment philosophy for sustainable investing

As stated above, our stakeholders' preferences are very important to us. After all, not a single euro is ours, we invest the pension capital of our members. Talks with members, employers, the Supervisory Board, and the accountability body held in 2021 are, therefore, the basis for our investment philosophy, risk appetite and derived principles of sustainable investing, as adopted by the Board in early 2022. We have reproduced them in full in the following.

Investment philosophy for sustainable investing

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

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

Risk appetite for sustainable investing

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

- Pensioenfonds PGB is not prepared to run risks with respect to compliance with laws and regulations and the requirements for domestic and international principles and conventions regarding sustainable investing to which Pensioenfonds PGB has voluntary signed on.
- Pensioenfonds PGB is only willing to approve new investment propositions if the sustainability aspects have been weighed explicitly and in a well-substantiated manner, are deemed acceptable, and are in line with Pensioenfonds PGB's policy.
- Pensioenfonds PGB strives for full transparency on sustainability risks and sustainability goals, as well as on the impact of sustainability factors on the investment portfolio and the impact of investments on the community and the environment.

Sustainable investing principles

- We make a difference through sustainability.
- The investment quadrangle of return, risk, costs, and sustainability is applied in full to the entire investment portfolio, within each investment category, and within each mandate or investment fund.
- We monitor and manage based on sustainability.
- We do not exclude any industries, geographic regions, or governments offhand, unless products and/or services systematically do major harm to people and/or the planet.
- We invest in companies that can and want to make the transition to a sustainable society and economy and that are actually and demonstrably doing so.
- We select sustainability topics to apply focus to our efforts.
- Active shareholdership delivers better results for long-term value creation in a broad sense.
- When it comes to utilisation, a significant adverse impact on sustainability aspects will lead to us not going ahead with an investment.

Three pillars

Our sustainable investing policy rests on three pillars: limit, strengthen, and utilise. These pillars provide a good summary of what we want to achieve with our sustainable investment policy: limiting sustainability risks, strengthening the sustainability performance of companies in which we invest, and utilising opportunities to contribute to a sustainable future for our members.

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Want to find out more about developments in sustainable investing? In April 2023, we will be publishing a separate (digital) annual report on sustainable investing on pensioenfondspgb.nl/duurzaambeleggen.

Other matters

Pensioenfonds PGB is governed by asset management laws and regulations. The following will outline the relevant regulatory implementation processes.

Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation

In 2021, the level-1 transparency rules under the SFDR became applicable to Pensioenfonds PGB and we have, on Pensioenfonds PGB's *Pensioen 1-2-3* website, reported on the SFDR classification of the pension schemes offered (as per Article 8 of SFDR) and the provisional decision not to provide an explanation of the adverse impact of investments on sustainability factors.[4]

With the entry into force of SFDR level 2 on 1 January 2023, further and more detailed transparency rules became applicable to, among others, pension funds in the area of sustainability reporting. Given these additional obligations, Pensioenfonds PGB has drawn up additional documents and published these on its website and on *Pensioen 1-2-3*.

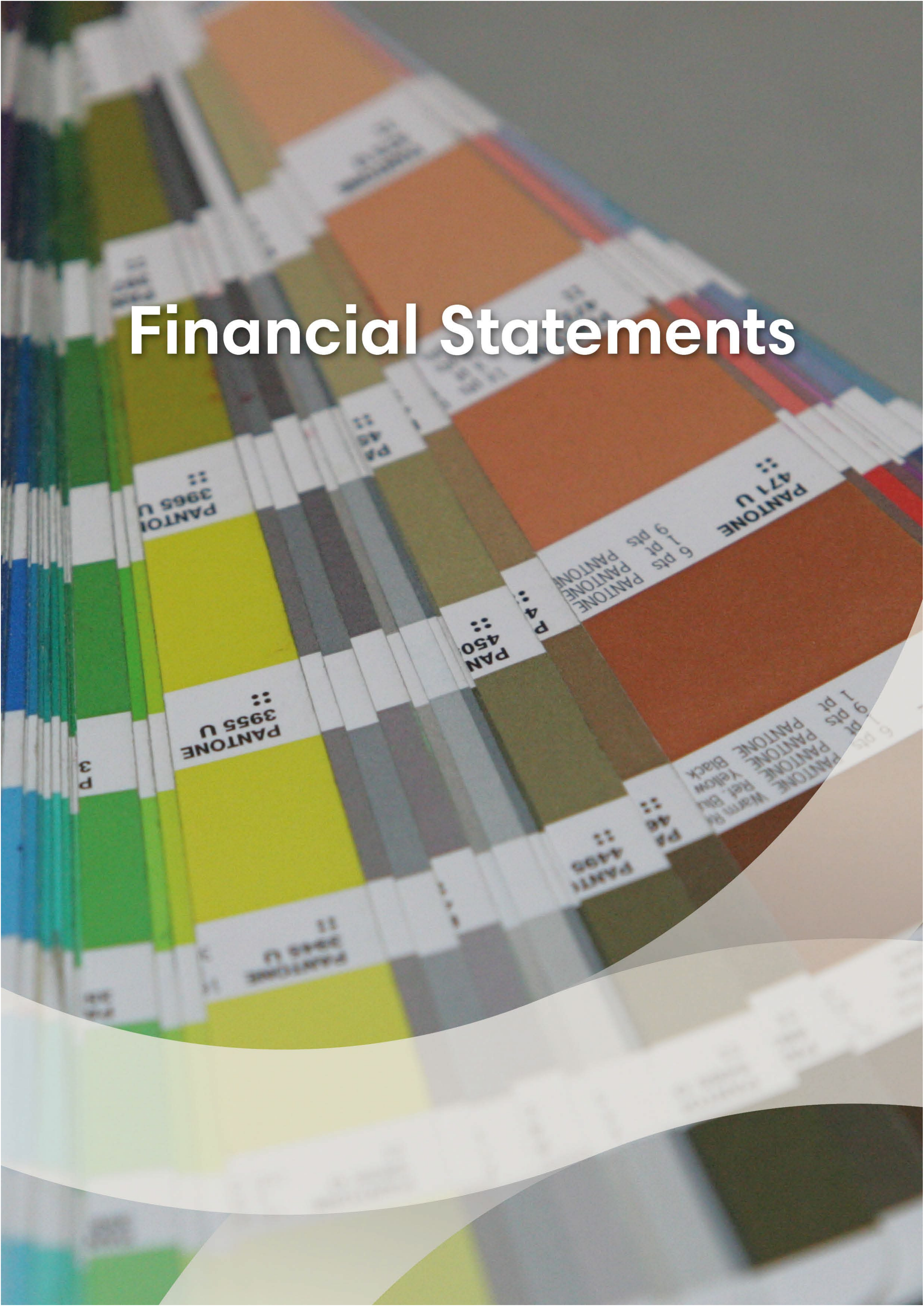
[4] *These documents are available on pensioenfondspgb.nl/duurzaambeleggen*

To some degree, the Taxonomy Regulation has been included in the SFDR, containing a classification system - the taxonomy - that is intended to give investors clear and transparent information of financial products' environmental sustainability, with a view to combating greenwashing. In this context, the Taxonomy Regulation sets strict requirements for classification as a sustainable activity. The Taxonomy Regulation came into force in full on 1 January 2023. Pensioenfonds PGB keeps close track of all developments in the applicable laws and regulations on sustainable investing.

Some of the relevant obligations under the European Markets Infrastructure Regulation

Positions in financial instruments that are not settled within a clearing system are subject to certain risk-limiting rules, which enter into force on a staggered basis. Examples include the already implemented transaction reporting obligation and the obligation to provide collateral, also known as 'variation margin', to hedge exposure. As of September 2022, Pensioenfonds PGB is subject to a new set of rules that require the pension fund and its counterparties to exchange collateral, also known as initial margin, to hedge the risk to which Pensioenfonds PGB will be exposed if the variation margin provides insufficient safeguards. This may happen when, for example, market fluctuations cause the exposure to change. The obligation to exchange initial margin applies only if the value of the transactions between the pension fund and its counterparty exceeds a certain threshold. Pensioenfonds PGB has made preparations to address the implications of these obligations. In addition, Pensioenfonds PGB is already prepared for the obligation that requires pension funds to clear certain OTC derivatives, which is expected to take effect on 18 June 2023. Pensioenfonds PGB also closely tracks any developments in this area.

Financial Statements



Balance sheet as at 31 December 2022

(after distribution of balance of income and expenses)

Amounts in millions of euros

	31 December 2022		31 December 2021	
ASSETS				
Property and infrastructure	2,318		2,318	
Shares	13,514		18,568	
Fixed-income securities	13,988		15,794	
Derivatives	3,779		817	
Investments at the pension fund's risk		33,599		37,497
Property and infrastructure	28		22	
Shares	161		179	
Fixed-income securities	115		109	
Derivatives	27		5	
Investments at members' risk		331		315
Reinsurance portion of technical provisions		9		8
Participating interest		1		3
Tangible fixed assets		25		25
Receivables and accrued income		1,930		414
Other assets		31		55
Total assets		**35,926**		**38,317**
LIABILITIES				
Foundation capital and reserves		3,393		5,380
Technical provisions at the pension fund's risk		25,253		31,621
Technical provisions at members' risk		328		312
Other short-term liabilities and accrued liabilities		6,952		1,004
Total liabilities		**35,926**		**38,317**
Current UFR funding ratio		113.2		116.8
Policy funding ratio		118.7		111.5

Statement of income and expenditure for 2022

Amounts in millions of euros

		2022		2021
INCOME				
Premium contributions at the pension fund's risk		903		852
Premium contributions at members' risk		82		71
Investment results at the pension fund's risk		-9,211		2,162
Investment results at members' risk		-63		23
Total income		**-8,289**		**3,108**
EXPENDITURE				
Pension benefits paid		825		766
Pension administration costs		44		36
Change in technical provisions for pension fund's risk				
Pension accrual	1,042		1,089	
Pension increase	2,573		-	
Interest addition	-163		-181	
Withdrawal for benefits and administration costs	-844		-782	
Market interest rate change	-10,021		-2,233	
Change in actuarial principles	328		-	
Change under transfer of rights	720		2,761	
Other changes in technical provisions	-3		-18	
		-6,368		636
Change in technical provisions at the pension fund's risk		16		83
Reinsurance balance		3		2
Balance of transfer of rights		-841		-3,006
Other expenditure		19		13
Total expenditure		**-6,302**		**-1,470**
Balance of income and expenditure		**-1,987**		**4,578**
Distribution of the balance of income and expenses				
Change in required reserve		-1,987		4,578

Annual Report 2022
Pensioenfonds PGB

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