

Investment beliefs PDN (December 2021)

Financial markets

- 1. We need return on investments to achieve sufficient pension results for members, which means accepting risks.**

Why: The pension contribution only funds part of our full pension ambition, which is why the fund needs additional funding and expects to receive this from investment returns, which are associated with risks. Investors in shares and corporate bonds, for instance, run investment risks and are rewarded for this. Diversification across risk sources and investment categories is essential due to the volatility of risk premiums and correlations between them.

This means that: We need to determine how much return is required and how much risk we can run in order to fulfil the pension fund's objective. The starting point here is adopting the strategic investment policy, including investment category choices and their scope.

- 2. As long-term investor, PDN is able to earn an additional risk premium on illiquid investments.**

Why: As the pension fund is a long-term investor and the obligations are spread and planned over time, the pension fund's invested assets can be partly illiquid. The pension fund can also profit from available risk premiums, due to the long investment horizon.

This means that: PDN allocates part of the assets to illiquid investments.

- 3. Diversification of investments over different investment categories can reduce investment risks. No investment category is excluded in advance unless this is in conflict with other investment beliefs.**

Why: As correlations are generally lower than 1, the overall investment portfolio risk profile can be lowered by combining investment categories.

This means that: The investment portfolio comprises various investment categories of which the long-term mutual correlations are lower than 1.

- 4. The value of investments fluctuates, but the return tends to average out over time.**

Why: Capital markets are volatile and risk premiums may vary over a longer period (3 to 5 years). In the longer term, for example, nominal interest rates tend to reflect real economic growth complemented by an inflation component. As far as risk premiums are concerned, this compensation for additional risk is realized over a longer period of time.

This means that: Temporary deviations from the long-term average enable additional returns to be achieved by granting tactical room for maneuver.

Governance

5. The investment policy is aligned to members' pension results.

Why: The pension fund must have sufficient assets in relation to its liabilities if it is to pay all pensions now and in the future, which is why the Board aligns the investment policy with the nature and scope of the pension fund's liabilities (including the indexation ambition).

This means that: The strategic investment policy is determined using ALM analyses, in which the total balance sheet serves as input. Additions and changes to investment categories are not evaluated in isolation, but together with the entire balance sheet.

6. Member confidence is essential for the fund. The investment portfolio must be transparent and clear, the investment decisions we take must be explainable, and costs must be justified.

Why: The Board and its supervisory bodies should understand the building blocks of the investment portfolio and these should be explainable to members. We should avoid the Board spending a disproportionate amount of time and capacity on one investment category, mandate, or position, or making excessive use of external expertise, for example in the legal or tax field.

This means that: The pension fund assesses how complex and explainable the existing strategic investment policy is, as well as any proposals to adjust this. The costs of investments must fit within the frameworks formulated by the Board.

7. The Board and the administrator have the same objective with respect to investments, which is ensured through a strategic partnership with our own administrator.

Why: It is important that the policy and its implementation are well aligned and that there are no conflicting interests. This is achieved through a strategic partnership with our own administrator, on a non-profit basis. High-quality and integrated services benefit from strategic advice, fiduciary management, and portfolio management insight and knowledge.

This means that:

- *DSM Pension Services provides integrated fiduciary advice, fiduciary management, and portfolio management services to PDN as a strategic partner. External advisors and asset managers are engaged for specific components.*
- *Investment mandates can be managed both internally and externally. Internally and externally managed investment mandates are monitored, evaluated, and assessed in the same way and based on the same criteria set by the Board. For each new investment mandate, the choice between internal and external management is made explicitly in advance by the Board according to the same criteria.*

Investment process

8. The strategic investment policy largely determines which returns and risks are to be achieved.

Why: Determining the strategic investment policy is the most important investment choice the fund makes. Spreading investment category risk sources can reduce the total risk without this being at the expense of the expected returns, which is why the Board places a high priority on the composition of the strategic investment policy.

This means that: Adjustments to the strategic investment policy are assessed for added value at total portfolio level through portfolio construction. Investments will, therefore, only be added if they can be explained and if they can be given a minimum size within the investment portfolio so that they have clear added value at portfolio level.

9. Active management can pay off.

Why: *It may be worthwhile taking active positions in relation to norm weightings, for example because:*

- *Markets are not fully efficient. The level of efficiency differs per financial market;*
- *Tactical decisions with a shorter time horizon can therefore sometimes add value within a mandate and across mandates, but should be applied with restraint and discipline*

This means that: *The Board provides an active risk budget to exploit the above inefficiencies. The Board periodically evaluates the policy areas and investment categories in which active management may be worthwhile and the extent to which a risk budget is made available for this purpose.*

Sustainability

10. Integrating sustainability contributes to the long-term goals of the fund and its members.

Why: *The fund sees that:*

- *investment is a form of long-term risk management concerning risks that are not financial in nature and can therefore contribute to the fund's goals;*
- *the integration of sustainability factors in the investment process ensure better investment decisions that are expected to improve the return/risk profile of the investment portfolio;*
- *an open dialogue with companies in which it invests contributes to financial and social returns;*
- *targeted investments in specific sectors or themes related to its members effectively add value and make a difference to its members in this way;*
- *it should strive for greater transparency and visibility of the pension fund regarding sustainable investment policy.*

This means that: *PDN has determined its Socially Responsible Investing policy, which comprises exclusions, transparency, corporate governance, ESG Integration in mandates, and engagement.*