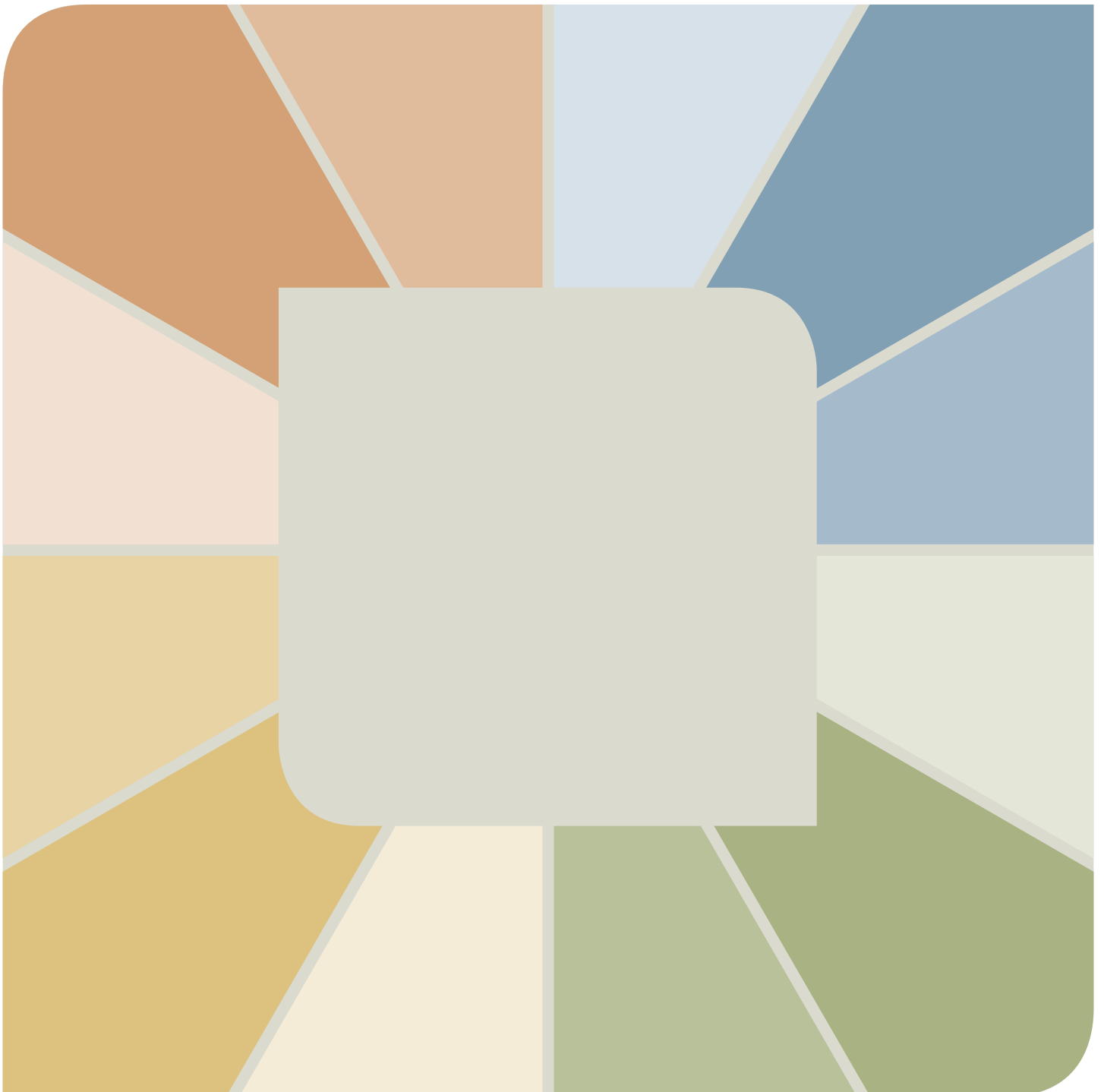




Annual Report 2019

Far away and nearby



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01. Foreword

Far away *and* nearby

2019 was a year of milestones: the pension agreement is finalised, and an impending pension reduction has been postponed. In 2019, MN and its clients have also adopted a new strategic framework for the next three to five years.

At the beginning of 2020, we faced the Covid-19 (corona) outbreak which resulted in a pandemic and crisis. This corona crisis has a major impact on the global economy and the financial markets and, in turn, on the financial situation of our clients. MN and its clients keep a close eye on developments and financial consequences and are in close contact with each other. On the basis of our business continuity plans, the operational activities of MN, including pension administration and asset management, are continued without interruptions. Read more about our approach in view of the corona crisis in the Strategy, Trends and Developments and Risk Management sections.



Strategic framework

We have adopted a new strategic framework together with our shareholding clients - Pensioenfonds Metaal en Techniek (PMT), Pensioenfonds van de Metalelektro (PME) and Bedrijfspensioenfonds voor de Koopvaardij (Bpf Koopvaardij) and our social partners (Vakraad and ROM). In doing so, we aim to safeguard current services and expand with new services for existing clients. We will also collaborate with other pension providers more, in order to strengthen our services. Remaining competitive, being innovative and being socially responsible are key to our approach. In this way, we seek to respond in a timely and correct manner to developments in our field such as digitisation, individualisation, collaboration and sustainability.

Collaboration

We work on a scale that requires far-reaching professionalism in accordance with international standards, both in asset management and pension administration. In view of this, collaboration between established parties and technologically advanced partners can bring benefits. Our strategy lays down those parts of the services our clients want to be explicitly involved in, and those parts where a standard version is sufficient. If services and processes can be outsourced (to third parties) at lower costs but of equal quality, MN takes on the role of coordinator on behalf of the pension funds which are then less directly involved. Some examples of this are the regular processes such as collection and payments, the execution of the pension administration and parts of the asset management. In this way, we also work together with other pension providers with the aim of establishing a *shared service centre* for our clients in order to be able to carry out generic processes. In addition to benefits like economies of scale and cost savings – as well as by avoiding duplicate investment – this should lead to better service and better communication between employers, participants and funds. Apart from that, there is more contact between employees of the funds and they learn from each other and share best practices.

Pension agreement

After almost a decade of negotiations, the Pensioenakkoord 2019 (2019 Pension Agreement) is finalised, an important milestone on the road to a new pension system. At the same time, due to the persistently low interest rates and vulnerable funding ratios, a pension reduction seemed inevitable, but this was postponed at the last minute. Although we were well-prepared for a possible pension cut in 2020, we welcome the postponement which ensured the participants of the pension funds concerned will not be affected by a pension reduction in 2020.

In working out the pension agreement, it is crucial for us as the pension administrator that the consequences for participants and employers are taken into account at each step. This requires clear agreements that are easy to explain and practical to implement. Our mission is to make the transition as smooth as possible for participants and employers. We want to be well-prepared for the effects of the pension agreement and all other possible changes that may come our way in the coming years, as well as improvements that we would like to realise. That is why we work on systems with sufficient flexibility, quality and productivity.

Digitisation and individualisation

We will see a strong increase in digitisation over the coming years, resulting in new forms of communication and services. Consumers are influenced by digitisation and take experiences from other sectors with them. Companies use technology to maintain and strengthen their relationship with the end user. One of the ways they do this is through personalisation, in order to make their services and products more successful based on usage data. This also changes the way in which MN can provide for the information and support needs of clients – employers and participants. Integral customer service (administration, provision of information, and communication) will be faster, more transparent and more efficient. Participant and employer communication is digitised at a fast pace; within a few years, MN will be able to offer all communication of your choice in a digital and personalised manner.

In 2019, the digital basis was strengthened by the introduction of employer portals and improvement of participant portals and pension planners. New means of communication have also been introduced, one example of this being the chatbot. In 2020, self-service and communication will be further developed. In order to give innovation the space it needs, both literally and figuratively, MN has formed its own innovation lab at the beginning of 2019. This will allow us to experiment in a coordinated way, quickly building prototypes of new products and services and quick wins. The innovations are conceived and carried out by dedicated teams of MN employees, whether or not in cooperation with our clients, complemented by external experts and entrepreneurs whose help is enlisted for a specific initiative.

Corporate social responsibility

Corporate social responsibility (CSR) and sustainability mean more than just thinking about the environment. They are also about data privacy & security, social equality, and fair trade, for example. This has implications for both the company's own business operations and the investment policy for our clients.

Together, we are convinced that the investments based on this policy have an impact on the world, and that the world has an impact on these investments. It is therefore important for a good pension that the geopolitical and macro-economic influences on the investments we make on behalf of our clients are well-understood, and that we take responsibility for the effects of these investments. That is why MN takes the environmental, social and governance (ESG) factors into account. We are explicitly and continuously engaged in dialogue with clients on this topic.

Social standards are shifting; where standards five years ago were mainly about smoking, weapons and environmental damage (toxic waste), we will also face new topics such as energy transition and use of data. We will have to anticipate these in our services and develop frameworks for them.

Data usage

Due to the changes that digitisation brings to our society, we are developing a new standard in our thoughts and actions around data. How can you best make use of data, and how do you ensure the security and privacy of users? In our analyses, advice and services, the use of data will play an increasingly important role. Just looking at legislation and regulations is not sufficient; social standards go beyond that. We form an opinion as an organisation and as a society on more and more topics. As a result, we also require more and more of the companies in which we invest, and we expect them to take a stance in this regard. These standards also apply to us. CSR is alive, is undergoing acceleration and is moving on to other themes.

Development of our organisation

Increasingly cost effective and efficient working methods will radically shape the future of MN as an organisation. It is generally expected that, over the next ten years, work will become faster, more affordable, and will be done by fewer people as a result of digitisation, standardisation and outsourcing of processes. This also requires certain competencies of the employees of MN. Whereas we increasingly set up our services for employers and participants on an individual basis, for MN employees, this will also increasingly involve individual development paths. For the next few years, this will appeal to the ability to change of MN and its employees, so that every MN employee can continue to have an impact on the realisation of the organisation's objectives and is and will remain permanently employable. An ambition that is both far away and nearby; it's one we currently invest in.

Norbert Hoogers
Chairman of the Board of Directors of MN

Increasingly cost effective and efficient working methods will radically shape the future of MN as an organisation.

02. MN Profile

MN is a financial service provider with € 153 billion of (pension) assets under management (year-end 2019). We support our clients - Pensioenfonds Metaal en Techniek (PMT, the Pension Fund for the Metal and Technology Sector), Pensioenfonds van de Metalelektro (PME, the Pension Fund for the Metal and Electrical Sector) and Bedrijfspensioenfonds voor de Koopvaardij (Bpf Koopvaardij, the Merchant Navy Pension Fund) - with management advice, asset management, pension administration, pension communication and insurance administration. In addition, we provide the asset management for Bedrijfstakpensioenfonds Mode-, Interieur-, Tapijt- en Textielindustrie (MITT, the Sectoral Pension Fund for the Fashion, Interior, Carpet and Textile Industries), Pensioenfonds Cargill (Cargill Pension Fund), Stichting Pensioenfonds Essity (Essity Pension Fund), Pensioenfonds Forbo (Forbo Pension Fund), het Ondernemingspensioenfonds Mn Services (Mn Services Company Pension Fund) and NV schade. We manage (supplementary) income insurances for various parties: NV Schade, UVVS, Bovemij, KMUV (until the end of 2019) and the ROM. MN also provides services to the R&D funds and Social Funds in the Metal & Technology and Motor Vehicle sectors.

The relationship with our clients is characterised by close, direct cooperation, a long-term focus and not-for-profit orientation. In terms of size, MN as a pension administration organisation is large enough to be an influential market player, but small enough to retain the human dimension. We have a strong social profile: sustainability is self-evident in our way of thinking and working.

A good pension in a better world

We work to achieve a good pension in a better world every single day. We do so for the approximately two million people and approximately 36,000 employers in the Metal & Technology, Metal & Electrical and Maritime sector. Our mission is to secure their income, now and in the future.

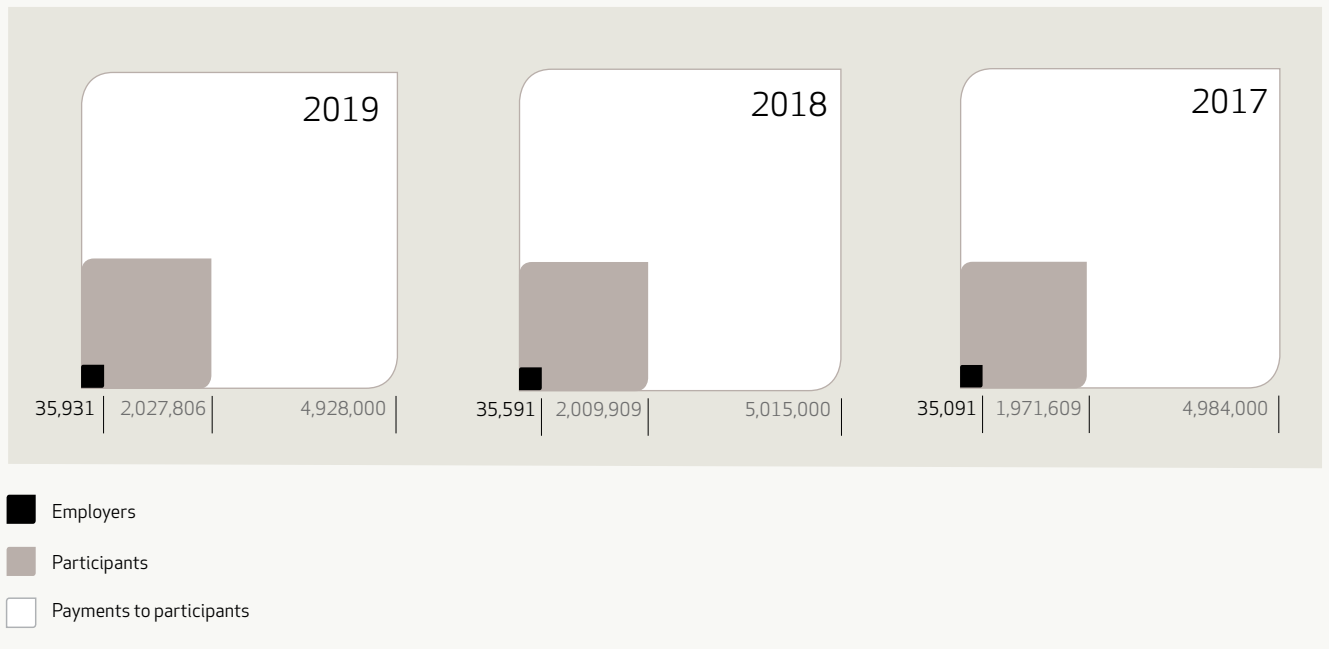
MN works as an extension of pension fund boards and social partners and offers its clients an integral pension proposition with advice, asset management, communication and administration. We employ specialists, technicians, strategists, consultants and innovators. We are goal- and service-oriented, aim for quality and are transparent. We put our money where our mouth is. Time and time again, we reflect on how our actions affect our supporters. How we can do better for 'our' funds and their participants, with an eye to people and the environment. We, together with our clients, think about future-proof solutions. Achieving a good return at the lowest possible cost is paramount, so that participants can enjoy a good pension in a better world.

Fiduciary services

In 2019, in addition to PMT, PME and Bpf Koopvaardij, the following clients made use of MN's fiduciary services: Bedrijfstakpensioenfonds Mode-, Interieur-, Tapijt- en Textiel-industrie, Pensioenfonds Cargill, Stichting Pensioenfonds Essity, Pensioenfonds Forbo, het Ondernemingspensioenfonds Mn Services and NV schade. In addition, we manage (supplementary) income insurances for various parties: NV Schade, UVVS, Bovemij, KMUV and Achmea. MN also provides services to the R&D funds and Social Funds in the Metal & Technology and Motor Vehicle sectors.

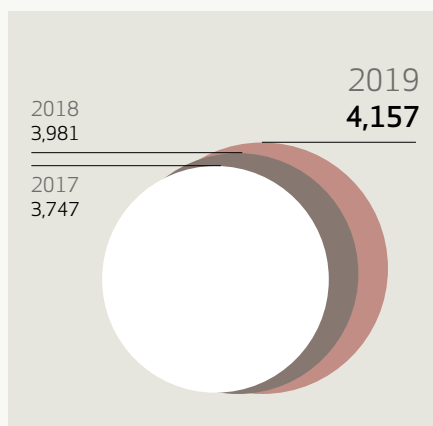
Key figures

Number of employers, participants and payments in 2017, 2018 and 2019



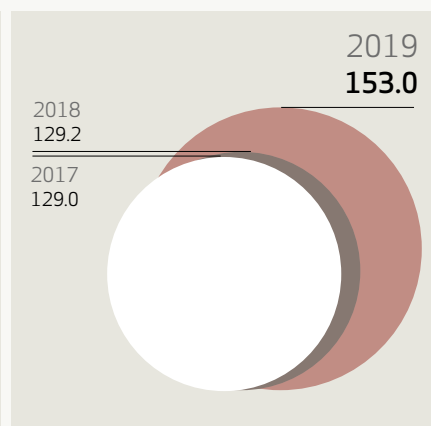
Premium turnover

in 2017, 2018 and 2019 (x € 1 million)



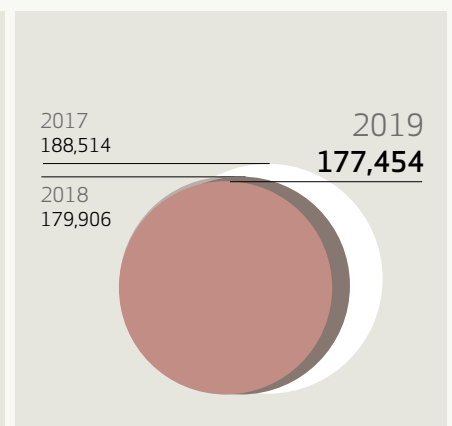
Assets invested

in 2017, 2018 and 2019 (x € 1 billion)



Net turnover

in 2017, 2018 and 2019 (x € 1,000)



- 2017
- 2018
- 2019

03. Strategy, trends and developments

MN offers clients an integrated pension proposition consisting of management advice, asset management, pension communication and pension administration, and insurance administration. This proposition is characterised by close, direct cooperation with clients, a long-term focus and not-for-profit orientation. Social involvement and responsibility are the common theme throughout the company's strategy and business operations. MN focuses on a stable quality of service at competitive prices.

Corona crisis

The financial crisis triggered by the coronavirus outbreak in early 2020 has a major impact on the global economy and financial markets, and, in turn, on the financial situation of our clients. MN and its clients keep a close eye on the developments and financial consequences and are in close contact with each other. Specialists of Asset Management also consult each other as well as clients about the actions and measures to be taken. Supervisors such as De Nederlandsche Bank and the Autoriteit Financiële Markten (The Dutch Authority for the Financial Markets) are also informed, on the topic of business continuity as well as on the financial markets. Although MN is aware of the significant impact on its clients and the sector as a whole, the expectation as of the date of the signing of this annual report is that the impact on turnover as well as on the overall financial position of MN will remain limited.

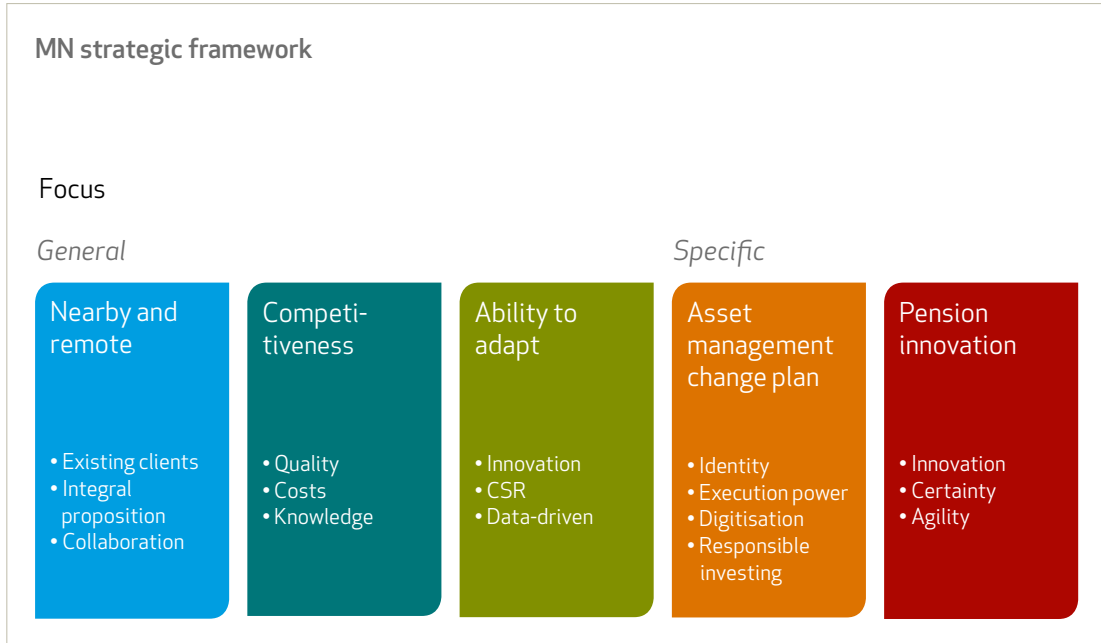
Trends and developments

We will see exponential growth in digitisation over the coming years, which goes hand in hand with development of revolutionary technologies. These also, to a large extent, determine the wishes and needs in society and business. Consumers are strongly influenced by digitisation and take experiences from other sectors with them. Companies use technology to maintain and strengthen their relationship with the end user. One of the ways they do this is through personalisation, in order to make their services and products more successful based on usage data. This also changes the way in which MN can provide for the information and support needs of client.

Strategic Framework

In the coming years, MN will be preparing for the further finalisation of the 2019 Strategic Framework - the compass for the next three to five years - and the continuing improvement of the services provided to existing customers. In doing so, MN seeks to innovate, to remain competitive and to continue to improve its ability to change; all this in good time and in the right ways. In doing so, we aim to safeguard current services and expand with new services for existing clients.

Collaboration between established parties and technologically advanced partners can bring benefits in view of this. Our strategy lays down those parts of the services our clients want to be explicitly involved in (nearby) and those parts where a standard version is sufficient (remote). If services and processes can be outsourced (to third parties) at lower costs but of equal quality, MN takes on the role of coordinator on behalf of the pension funds which are then less directly involved. Responding to trends in the field is important because these are strongly influenced by broader technological and societal developments, such as new forms of corporate social responsibility (CSR).



More specifically, this means that MN and its clients together detail topical themes and developments within the Strategic Framework referred to above. For example, the (implications of) the Pensioenakkoord 2019, the value of pension as an employment condition, socially responsible investment, cost reductions, centralisation versus outsourcing of services, customer service and communication. Controlled growth of the fiduciary client portfolio also forms part of this.

The Strategic Framework serves as a guideline for the organisation, with each department being asked to set out a concrete ambition in its annual plan in line with this framework.

Pension Agreement

After many years of negotiations, a pension agreement was presented in June of 2019. Regardless of further detailing, pension is and will remain an important part of future income. Participants set money aside, supported by employers during their working life, for a pension as a supplement to the AOW (State pension). We have a large responsibility towards employers and participants in ensuring adequate pension management. This applies to the administration of the existing system, but also to a good transition to management of new pension agreements.

Pension as an employment condition

Pension remains an important employment condition for both employers and employees. Due to its function as deferred income, pension is a prominent part of the total individual financial overview. Providing financial understanding and insight is an important development for both employers and employees. Technology and a personal approach contribute to comfort in the service provided by the administrator on behalf of the funds. Digitisation makes tailor-made communication possible. In 2019, for example, employer portals were introduced, and participant portals and pension planners were further improved.

Socially responsible investing

Socially responsible investing (SRI) has become the standard for investment policy. This mainly concerns the integration of non-financial factors in investment decisions and the better assessment of (long-term) sustainability and expected return on investments. In addition, MVB is increasingly concerned with the impact of investments on the real world. This also increases the focus on initiatives which identify such impacts, such as the Sustainable Development Investments (SDIs) i.e. investments that contribute substantially to the Sustainable Development Goals (SDGs).

Reduction of costs

In consultation with our clients, we are always on the lookout for areas of improvement in terms of the quality and efficiency of our services. This is an ongoing process in which our challenge is to continuously improve the quality and reliability of our services and to reduce administration costs per participant.

Cooperation in the sector

The challenges the pension sector faces call for a deepening and strengthening of formal and informal cooperation. Collaboration between established parties and technologically advanced partners can bring benefits in view of this. In this way, we also work together with other pension providers with the aim of establishing a shared service centre for our clients in order to be able to carry out generic processes. In addition to benefits like economies of scale and cost savings – as well as by avoiding duplicate investment – this should lead to better service to and better communication with employers and participants. Apart from that, there is more contact between employees of the pension providers and they learn from each other and share best practices.

Customer service and communication

Where mass-media channels and the one-size-fits-all approach were sufficient in the past to inform and serve consumers, (online) service has quickly transformed over the past years from multi-channel to omni-channel. We expect that this development will only go much faster and much further. The diversity between generations in technological skills and ways of gathering information is greater than ever. Every generation has its own channels, needs and expectations. Making an impact in the enormous quantities of information received by consumers is increasingly important, but also more difficult. We can say for certain that the conscious consumer will increasingly question organisations about their social value and contribution.

04. Asset management

2019 was a dynamic year for the pension and asset management market due to the persistently low interest rates, low coverage ratios among clients and the resulting threat of pension cuts. MN Vermogensbeheer (MN Asset management) has followed the run-up to the new pension agreement with great interest and is preparing for its consequences. Of course, we also pay attention to the current events surrounding the existing system and the developments in the asset management industry.

Trends and developments in the industry

Pension system reforms

The imminent reform of the pension system has an impact on asset management for pension funds. For example, the investment return may be allocated in a different way under the new pension agreements. We investigated what this means for our clients' strategic investment portfolios, the required liquidity and so-called *life cycle investing*. In addition, the advice of the Commissie Parameters (The Parameters Committee) has been taken into account. This committee examined the various calculation values on the basis of which pension funds calculate future returns. As a result, pension funds have had to take lower return expectations into account in their recovery plans. The above items have been included in our clients' investment plans for 2020.

Further consolidation in the asset management market

Internationalisation and further consolidation are important developments in the asset management industry. Asset managers around the world are growing in terms of assets under management and there is a clear focus on reducing costs. MN distinguishes itself from (international) asset managers through its knowledge of pensions and the provision of tailor-made solutions. MN strives to continue to be an expert and cost-efficient partner in the future as well. In order to achieve this, we are investigating which parts of the services MN Vermogensbeheer provides direct added value for its clients and which parts can be set up more cost-efficiently, for example through cooperation with other parties. MN is also open to the growth of its fiduciary client portfolio, provided this is in line with the working methods for and services provided to existing clients.

Responsible Investment

Together with our clients, we are convinced that our investments have an impact on the world, and that the world has an impact on our investments. It is therefore important for a good pension to understand the influences on our investments well and to take responsibility for the effects our investments have. Therefore, MN, together with its clients, has drawn up a responsible investment policy that integrates the Environment, Social and Governance (ESG) aspects.

Digitisation

Digitisation also plays an important role at MN Vermogensbeheer. Every year this requires choices and investments in technology to further increase the efficiency and quality of our processes. In 2019, for instance, MN started future-proofing the IT systems for client portfolio management.

In addition, MN set up its own innovation lab, the so-called M-lab, at the beginning of 2019. The aim of this lab is to develop new products and services for clients, participants and employers through a fixed process, without disrupting regular business. The M-Lab focuses on the future of asset management, pensions and insurance. 'Income for later' and 'new technologies and propositions' are important themes here. The innovations are implemented by dedicated teams of MN professionals, in collaboration with our clients and supplemented by external experts and entrepreneurs if necessary. In addition, a permanent core team has been set up to ensure continuity and focus. In 2019, three projects were started with a focus on asset management. For example, one team is developing internal algorithms for optimal execution of trade orders on the foreign exchange market. We also investigated whether artificial intelligence could be used to develop a dashboard in which ESG-related news could be presented to our clients.

Brexit

In 2019, Brexit received a great deal of attention in the world of asset management. The risk of Brexit revolves around how financial markets will react to a changing economic relationship between the United Kingdom and the European Union. Brexit also has operational consequences for MN Vermogensbeheer. In 2019, MN prepared for all the Brexit scenarios in various workflows. Having done so enables MN to ensure a structured and predictable implementation of the consequences of Brexit, regardless of the outcome.

Organisation

Agility

In 2019, the 'FA Vooruit' (FA Forward) pilot project was launched within the Fiduciary Advice (FA) department. The aim of this pilot is to achieve shorter project timelines and increase job satisfaction through more multidisciplinary collaboration. *Agile* working methods have been chosen for this. The results are encouraging; employee engagement is high.

Cost reduction

There is a clear focus on reducing costs within the asset management market. MN, too, always strives for competitive agreements on management fees, including those concluded with external asset managers. As such, we check these regularly. If necessary, we renegotiate the agreements made with our external asset managers. This year, too, successful negotiations resulted in a further reduction in management fees for, among other things, equity mandates, high-yield corporate bonds and emerging market government bonds.

Innovations and new investment products

Infrastructure loans

In view of the current low interest rate, there is a trend of investors looking for more and more opportunities to invest in private markets. In 2019, for instance, MN introduced a new product within the high-yield cluster (in the return portfolio) of several clients: infrastructure loans. The infrastructure loan portfolio consists of loans to infrastructure projects, where returns are derived from the cash flows – e.g. rent and consumption – of these projects. ESG-factors are also taken into account within this portfolio. The aim is to fill as much of the allocation as possible with investments that make a positive contribution to our society, such as investments in energy transition. Certain projects related to oil and coal, for example, will also be excluded from the portfolio. The construction of this infrastructure loan portfolio will start at the beginning of 2020.

Further implementation and further development 'Bewuste Selectie'

In recent years, MN has designed the 'Bewuste Selectie' (Conscious Selection) strategy for the developed countries' equity portfolios in collaboration with clients. The starting point of the new portfolio is that pension fund boards know what they are investing in and why. To this end, preconditions have been drawn up that shares must comply before investments can be made, taking ESG factors (*environmental, social and governance*) into account, among other things. For example, no investments in harmful products such as the tobacco, fur and adult entertainment industries are made. We also believe that only those companies that have good business practices and take the environment, people and society into account, will perform well in the long run. This year, PME implemented 'Bewuste Selectie' (Conscious Selection) in its developed countries' equity portfolios. In 2019, MN also investigated how this strategy can be applied to other investment categories, such as shares from emerging markets. The aim is to apply this way of thinking to multiple asset classes in the coming years. An important principle here is that the risk-return profile remains unchanged, but that all choices can be explained.

De Betrokken Belegger

In 2014, MN set up the equity portfolio 'De Betrokken Belegger' (The Involved Investor) together with PME, in response to PME's wish to set up a portfolio with a high degree of involvement, a positive ESG approach and good fundamental (financial) characteristics. 'De Betrokken Belegger' is an innovative portfolio that actively selects a limited number of European shares that best fits the (ESG and financial-economic) principles of PME on the basis of fundamental arguments. In May of 2019, MN evaluated and further developed the 2014 'De Betrokken Belegger' (The Involved Investor) product strategy, which enabled greater allocation to this portfolio.

Integral management of the matching portfolio

Over the past year, MN has responded to the wish of clients to be able to manage the matching portfolio more integrally. The aim of the matching portfolio is to achieve a return that is in line with the development of the value of the pension liabilities. Thanks to the new design of the matching portfolio, pension fund boards are able to fully steer the portfolio in terms of main features. Within the integral matching mandate, MN is responsible for the detailed implementation and management of the portfolio.

Socially responsible investing

Together with MN, the clients of Vermogensbeheer determine the socially responsible investing (SRI) policy. In implementing this policy, MN takes *Environmental, Social* and *Governance* (ESG) aspects into account. We do this via the instruments of exclusion, active shareholdership, ESG integration, impact investments and investments that contribute to the UN's Sustainable Development Goals (SDGs).

Exclusion

On behalf of its clients, MN excludes companies if their activities or part of their activities are in violation of international treaties. We can also exclude a company if the dialogue with a company about a significant ESG risk has not led to the intended results. In addition, MN does not invest in government bonds of countries that are subject to international sanctions. In 2019, MN excluded 12 countries and 32 companies on behalf of our clients on the basis of international legislation or principles.

Active shareholdership

On behalf of its clients, MN wishes to be an active shareholder in companies in which it invests. MN does this by having a constructive dialogue with companies (engagement), voting at shareholders' meetings and initiating legal proceedings in the event of investment losses as a result of mismanagement on the part of the corporate board. MN has specific objectives in view of its role as active shareholder and reports on these to its clients.

Energy transition

The new climate dialogue programme of our clients was launched in the second quarter of 2019. In view of this, ten companies have been selected that have the greatest exposure in terms of climate risks in the client portfolios. These companies are active into two relatively polluting sectors: oil & gas and utilities. Over a period of two years, a dialogue will be conducted with these companies in order to move them towards three objectives:

1. Insight into climate risks.
2. Sustainable strategy with corresponding long-term objectives.
3. Disclosure of information according to the framework of the Task Force on Climate-related Financial Disclosures (TCFD).

The dialogue programme is implemented in cooperation with the Climate Action 100+ (CA 100+). The CA100+ is an alliance of more than 300 investors (combined assets of EUR 33,000 billion) who together conduct a dialogue with the 160 most polluting companies in the world. The objectives of our clients' climate dialogue programme are in line with those of CA100+. MN measures the progress of the selected companies on the basis of sub-objectives included in a scorecard.

Human Rights

MN is actively committed to improving companies' compliance with the UN's human rights business standards, the so-called United Nations Guiding Principles. MN has focused and worked on the following themes in 2019:

- living wages in the garment and footwear sector;
- combating child labour in cobalt mining;
- sound working conditions in the agricultural sector;
- safety and compliance with labour rights in the garment and textile sector.

▪ *Living Wage* The garment sector is one of the most labour-intensive sectors in the world. Despite this, wages are not high enough in many clothing-producing countries. This means that people with insufficient wages cannot provide for their basic needs, such as housing or food. At MN, we recognise that the payment of a living wage is a fundamental human right. MN is therefore entering into a dialogue on the topic of living wage.

Corporate governance

In the field of (good) governance, MN discusses various subjects with companies on behalf of its clients. In 2019, discussions were held on remuneration policy, diversity in the composition of the board of directors and the extent to which companies report on their long-term strategy. For example, MN spoke with Eumedion about the proposal to unify Unilever, which was withdrawn in 2018, and drew attention to the underestimation of sentiment about this among many shareholders. MN also drew attention to this at the shareholders' meeting itself. Together with other investors, MN also meets with (mainly American) companies with an excessive remuneration policy. Discussions have been held with IBM, for example, because the remuneration is disproportionately high in view of the company's performance. It turned out to be very difficult to engage in discussion on this subject with other companies, such as Alphabet (the parent company of Google).

Platform Living Wage Financials (PLWF)

The PLWF is an alliance of twelve financial institutions that engages in dialogue with companies with the aim of payment of a living wage to workers in global supply chains.

MN is one of the founders of this platform. As an investor coalition with more than €2.5 trillion in assets under management, they use this influence to connect with the investee companies and improve business practices in the area of living wages.

In recognition of its pioneering work in the area of living wages, the PLWF won the global PRI (Principles for Responsible Investments) award in October for best initiative in the field of socially responsible investment and active shareholdership.

Together with our PLWF partners, we organised another annual conference in October 2019 and reviewed the progress over the past year. More companies and more financial institutions turn out to be needed to achieve a sector-wide change in living wages.

MN remains committed to this in 2020.

ESG integration

On behalf of its clients, MN invests in financially healthy companies that take their social responsibility seriously. That is why we aim for far-reaching ESG integration (environmental, social and governance factors) in the investments in the various investment categories. We look carefully at the ESG performance of managers in both their selection and regular monitoring.

Impact investments

On behalf of its clients, MN deliberately aims for financial returns and positive effects on people, the environment and society by means of thematic investments. Impact investing focuses on investments that contribute to solving social and environmental issues. MN and its clients are convinced that making a positive contribution to society and achieving a good return go hand in hand. The investments must fit within one of the identified impact themes:

- Energy transition
- Circular economy (recycling)
- Access to finance
- Affordable housing

SDIs

Investments in companies that contribute to the Sustainable Development Goals are called Sustainable Development Investments (SDIs). SDIs can be made in different investment categories. On behalf of its clients PMT and PME, MN carried out measurements in 2019 to determine the extent to which investee companies contribute to the SDGs. For the total SDI exposure of the PMT and PME portfolios, we refer to the reports of our clients at www.bpmt.nl and www.pmepensioen.nl

Klimaat

Climate change is one of the major challenges we face as a society. On behalf of its clients, MN has chosen to take a pioneering role in dealing with climate change. We believe that an orderly transition to an economy in line with the Paris climate targets is the best way to minimise exposure to risk and maximise returns on our investments. On behalf of its clients, MN is committed to measuring and reporting the CO₂ emissions of relevant investments and financing under the Paris Climate Agreement. We have prepared a TCFD report for the third consecutive year this year (see annex below).

We have prepared a TCFD report for the third consecutive year this year.

(Inter)national cooperation

PRI

Since 2009, MN has been a signatory to the UN Principles for Responsible Investment (PRI) and is, in doing so, a member of a global organisation of institutional and other investors.

Eumedion

MN works closely with Eumedion and its members, representing the interests of institutional investors, in order to exert influence on behalf of clients at the General Meetings of Shareholders (GMSs) of Dutch listed companies.

IIGCC

Karlijn van Lierop, Director of Responsible Investment at MN, became a board member of the IIGCC (Institutional Investors Group on Climate Change) in 2019. The IIGCC provides investors with a collaborative platform for encouraging government policy, investment practices and business strategies that address long-term climate risks and opportunities. In doing so, MN is taking an active role in effecting an orderly energy transition.

IMVB

The companies in which MN invests on behalf of its clients operate internationally. In international value chains, they may become involved in or responsible for abuses in their operations, where it may concern human rights or labour law violations for example. Within the IMVB (Internationaal Maatschappelijk Verantwoord beleggen) covenant (covenant on International Socially Responsible Investment), pension funds, NGOs, trade unions and the government work together to reduce the risks of companies in which they invest. The agreements deal with risks that not only have a potentially negative impact on a company's operating results – and thus possibly on the return for the shareholder or investor – but can also have a negative impact on the environment and stakeholders involved, such as employees and local residents. MN and its clients are already committed to the international guidelines on which these agreements are based and have already incorporated these into their policies. This process is constantly improving and changing, for example when we evaluate and review investment mandates or when we select companies in our portfolio with which we enter into discussions (*engagement*) to make their business operations more sustainable. As a committed shareholder and responsible investor, MN takes an active role on behalf of clients in the IMVB covenant to share knowledge and experience. MN and clients also ensure that ESG is given an increased importance within business processes.

Sustainable Finance

The EU is estimated to fall short of at least €180 billion per year to meet the 2030 Paris targets, including a 40% reduction in greenhouse gases. The EU therefore set up a *sustainable finance* agenda in 2016 to bridge this gap. This has resulted, among others, in an EU taxonomy of sustainable economic activities (the EU Green Bond Standard) and benchmarks, focused on climate transition and aligned with the Paris Agreement. MN supports the EU's *sustainable finance* programme on behalf of its clients.

Annex

Task Force on Climate-related Financial Disclosures:
Pilot Rapportage



Task Force on Climate-related Financial Disclosures: Report

Final responsibility for MN's overall investment policy lies with the Board of Directors of Vermogensbeheer B.V., part of MN N.V.¹

The asset management team is operationally responsible for the execution of the asset management of MN's clients. The asset management team reports to the board of MN Vermogensbeheer BV. The CIO of MN, who is also a member of MN's Executive Committee, is the chairman of the internal MN steering group coordinating the climate issue. Asset management members and strategy department members are represented on the steering committee. The steering committee coordinates the work of a supportive expert group in the area of climate opportunities and risks. This expert group has representatives from the entire investment chain. In addition, there are climate experts active within the Responsible Investment team of MN.

Until August 2019, MN's chief investment officer (CIO) was vice-chairman of the board of the Institutional Investor Group on Climate Change (IIGCC). This role has been assumed by the head of Responsible Investment.

Strategy of MN and clients

In collaboration with its clients, MN adapted its clients' strategic investment framework in 2018 and explicitly included principles relating to climate change.



Figure 1: Overview of the investment chain of PMT and PME

Climate risks and opportunities

MN and its clients see cause to take climate change into account in their portfolios from two angles: the desire to contribute to a liveable world and the desire to limit financial risks. The financial risks can be divided into transition risks and physical risks. Transition risks are mainly related to the consequences of a stricter climate policy, which is necessary to achieve the objectives of the Paris Climate Agreement. Costs for companies may increase as a result of higher CO₂ taxes, for example, and investments related to fossil fuels may have to be written off early if a switch is made to clean energy sources. Physical risks are related to the consequences of a temperature rise on earth. For example, the financial performance of organisations is affected by changes in the availability and quality of water, food safety and extreme temperature changes.

MSCI has identified transit risks for MN's clients.

1. In the remainder of the report, reference is made to MN instead of MN N.V.

Investment opportunities

In addition to the climate-related risks, MN's clients also see clear investment opportunities. MN's clients translate this into an impact investment programme via the positive impact framework that contributes to the Sustainable Development Goals (SDGs), the so-called Sustainable Development Investments. It defines various themes of which two touch on climate investment opportunities:

- Energy transition
- Circular economy

Investment beliefs

The clients' Strategic Investment Framework sets out the investment, execution and risk management principles. The investment principles explicitly elucidate responsible investment in two further principles.

The first added investment principle states that the investments made by the clients of MN influence the real economy and society. With the inclusion of this principle, MN and its clients can take responsibility for the consequences of their investments in the real world. It forms the basis for taking into account the impact of investment choices on the world. The second added investment principle states that MN and its clients are convinced that only those investments that factor in sustainability, i.e. Environmental, Social and Governance (ESG), are profitable in the long term. Detrimental effects of an economic activity cannot be indefinitely passed on to humans, society and the environment.

Clients of MN have included a risk management principle that relates to the impact of climate change on clients' investments. On behalf of clients, MN monitors ESG risks explicitly: the risks of a changing world on the investments of clients. This in any case includes financial damage caused by regulations or other government interventions, financial risk as a consequence of climate change, and disruptive economic changes. The incorporation of the principles described above in the investment principles enables MN and clients to continue to build on these in the rest of the investment chain. The following processes contribute to the identification of climate-related risks and opportunities.

Strategy formation

In 2019, MN's clients revised various strategies, further detailing the way in which climate-related opportunities and risks are dealt with:

- Screening asset managers on ESG factors, taking the integration of climate aspects in the investment policy and the reporting thereon into account.
- Impact investments relating to the theme of energy transition. PMT and PME have a 'Kader Positieve Impact' (Positive Impact Framework). Using this, the impact investment programme is given shape, including the theme and contribution to the energy transition.
- In 2018, PMT made an accurate selection of companies in which investments are and are not made, and set preconditions for companies to be included in the equity portfolio. PMT wants companies to conduct their business in a good way, taking into account the E, S, and G factors. Half of the companies in the standard benchmark meet the requirements, about 800 out of 1600 companies have been selected as PMT investments. How companies deal with climate change is an important condition for this.

- In 2019, PME redesigned the passively managed equity portfolio of equities in developed countries. The starting point of the new portfolio is that PME knows what we are investing in and why. The contribution of beneficiaries was important in this matter, as was the reduction of climate risk in the equity portfolio.
- Since the beginning of 2018, PME no longer invests in coal producers. PME is convinced that the business operations of mining companies that focus solely on coal are not future-proof and these producers therefore represent a risk to PME's investment portfolio. Investments are also no longer made in producers of tar sand oil. Its production is seen as too harmful to the environment by PME, and the fund cannot identify with this.
- Engagement. MN conducts a dialogue on behalf of its clients with companies in the equity portfolios that, in absolute terms, contribute a great deal to the portfolio's carbon footprint. MN does so in collaboration with Climate Action 100+.
- Mandatory participation in the GRESB sustainability benchmark for real estate investments.

In 2019, several strategies were revised, further detailing how to deal with climate risks and opportunities. For example, the new investment strategy drawn up for infrastructure equities states that the aim is to invest half of the investments in these categories in the theme of energy transition. It is expected that a contribution can be made to the reduction of CO₂ emissions using these investments.

Resilience strategy taking into account different climate scenarios

PMT and PME had a scenario analysis performed for their portfolios by MN, in collaboration with Carbon Delta. Carbon Delta was acquired by MSCI in 2019, which is why reference is made to MSCI in this report. The aim was to identify climate-related opportunities and risks in a forward-looking manner. It is an instrument to map the robustness of the portfolio in the light of possible variations in the future. Scenario analysis provides additional insight into the risks of the portfolio and supports decision-making for measures to manage climate-related opportunities and risks.

Methodology

MSCI's methodology charts the potential positive and negative impact on business valuation as a result of climate-related transition risks. It is based on scenarios in which global warming averages 1.5 degrees Celsius, 2 degrees Celsius and 3 degrees Celsius. Globally, it was agreed in the Paris Climate Agreement to keep the average temperature rise below 2 degrees. Above two degrees, the severity of physical effects increases (extreme drought, extreme rainfall, risk of flooding) and the impact of climate change on natural systems that are crucial for life on earth becomes greater and more uncertain.

MSCI estimates the potential costs a company will have to incur to comply with future climate laws and regulations based on the policies of the country in which it produces. The greater the difference with the current scenario plan, the more policy measures are theoretically needed to achieve the new plan. A 1.5-degree plan therefore requires more far-reaching government policy measures than a 3-degree scenario. On the basis of the policy measures, MSCI calculates emission ceilings per company that it then uses to calculate the impact on the market valuation of a company. An important assumption of MSCI is that there will be an orderly and gradual

transition. At the moment when the transition is accompanied by stress, for example due to rapid manifestation of physical risks or political or public unrest, the transition costs can be many times higher.

In addition to the impact on business valuation as a result of climate-related transition risks, MSCI has also made a start on identifying both physical risks and climate-related opportunities. For this year, MN has found the data for physical risks to be so uncertain that it will not be published. Data on climate-related transition costs is developing rapidly and is not always complete. The results depend on both company-specific factors and environmental factors, which means that the results can vary greatly from one year to the next. In addition, new insights can lead to adjustments in the model, which makes comparability with previous years difficult. It is therefore important to underline the high degree of uncertainty surrounding the outcomes. This is a 'best effort' based on analytical tools currently available to MN.

Global warming is socially undesirable. MN sees climate-related risks as generic and systemic risks that must be actively limited. In this report, we only look at the transition risks of MN's portfolio. Climate-related risks such as physical risks are not included in this report for the aforementioned reason.

Results MSCI (Carbon Delta)

The results reported here relate exclusively to the transition risks. The analysis of the physical costs of climate change and climate-related opportunities are so uncertain, both in terms of data and methodology, that it has been decided for the time being not to report on these outcomes. In addition, PMT and PME report individually on the figures selected by MSCI. MN does not do so, as it is difficult to aggregate the figures.

- The analysis shows that climate-related financial transition risks increase in scenarios where current CO₂ emissions need to be reduced more, such as in the 2-degree and 1.5-degree Celsius scenarios. As a result, companies will have to switch more quickly to other production techniques or will have to deal with different earning models. This is expected to involve more costs. The methodology used only identifies the costs. MN considers it important to emphasise that the transition to a low-carbon economy also brings opportunities. The transition risks for the bond and equity portfolios have increased compared to last year. This is mainly due to changes in methodology. The prices for CO₂ emissions used to calculate the possible impact have been increased, which, in the opinion of the makers of the model, better reflects current expectations.
- Risks are greatest in emerging market equity portfolios. Within the corporate bond portfolios, the risks are relatively limited. This is because bonds have a limited duration and because bondholders have the primary right to repayment if a company has financial problems. However, the impact on bonds has increased significantly compared to last year as a result of the changed measurement methodology.
- As indicated previously in this report, the transition may also involve opportunities, which may mitigate risks.
- The portfolio-wide effects mask significant sectoral differences. The energy, aviation, maritime transport, construction and materials and utilities sectors are particularly high-risk. There are also significant outliers at the company level, both positive and negative.

MN pays attention to both the risks that these sectors entail and the opportunities that arise in these sectors.

- The physical risks of climate change have not been mapped at portfolio level due to insufficient data. However, MN estimates that these risks are greater than the risks associated with a transition to a 2-degree Celsius plan as agreed in the Paris Climate Agreement.

Integrated risk management

Climate risks are included in the investment principles of PMT and PME and, based on these, MN identifies, assesses and manages PMT and PME climate-related risks through various processes.



Figure 2: Parts of the investment chain used for identification and management of climate risks

Control and identification

Climate risks are identified and controlled via various regular processes in the investment chain. MN gains knowledge by, among other things, participating in IIGCC working groups and boards, participating in seminars where knowledge about climate risks is exchanged, participating in panels on climate risks, being a member of various expert organisations such as the IIGCC and the PRI, supporting and sponsoring the DNB climate risk working group and maintaining contact with peers. The insights gained by virtue of the above are used as input when reviewing investment categories. In this way, climate risks are taken into account integrally.

Manager selection & monitoring

MN's clients have their own ESG questionnaire to which external asset managers are obliged to respond. This examines whether there is sufficient knowledge about the CO₂ intensity of the portfolios they manage. MN ensures that (external) asset managers deal with responsible investment in the same way as MN and its clients. A Planet score is therefore given in the selection and monitoring of external asset managers, with points being awarded for the level of policy, climate integration and reporting.

For real estate managers, participation in the GRESB sustainability benchmark is mandatory. MN's clients want asset managers in other investment categories to be signatories to the UN Principles for Responsible Investment (UNPRI), to have a clear climate policy and to have a good climate integration process in place in view of their investments. This is monitored annually.

Investment decisions & dialogue programme

MN conducts intense dialogue with companies in the equity portfolios that, in absolute terms, contribute a great deal to the portfolio's carbon footprint. This is done in collaboration with the Climate Action 100+ initiative, the largest coordinated joint climate dialogue initiative to date. Participants are members of various climate networks of institutional investors such as the International Investor Group on Climate Change (IIGCC). The Climate Action 100+ Group of investors (collectively accounting for more than €40,000 billion of invested assets) joins forces to talk to the top 160 companies that are large emitters of CO₂. On behalf of its clients, MN asks companies to firmly anchor the climate theme in governance processes, to reduce CO₂ emissions in line with the objective of the Paris Climate Agreement and to report on progress in accordance with the TCFD framework. MN maps the extent to which companies show progress. MN clients may decide to exclude companies that show insufficient progress after an ongoing dialogue, or that do not have a clear strategy for navigating the energy transition in the future. MN's clients decided to exclude five companies on these grounds in 2019.

Credit and equity analysts include climate and ESG factors in business and sector analyses. Concerning credit, bondholder engagement talks are held during road shows, country visits and conference calls. Part of the conversation concerns, for example, the use of renewable energy.

Organisation of risk management

Risk management is an integral part of the business operations of pension funds and pension administrators and is based on the 3LoD model. The primary responsibility for controlling risks lies with the risk takers responsible, such as portfolio managers (1st line). The Risk Management & Compliance department forms the second line within MN and helps to draw up the frameworks and guidelines within which risks must be managed. Monitoring compliance with the management and carrying out independent monitoring of risks is also part of the Risk Management & Compliance department's tasks. Both management lines are monitored by the Audit department (third line).

Units of measurement, objectives and results

MN has various units of measurement and objectives that relate to climate risks and opportunities, and reports on these in regular reports.



Figure 3: Units of measurement, objectives and results

Units of measurement used

MN maps out climate risks and opportunities in the portfolios using the units of measurement below.

Climate-related opportunity indicators

- PMT and PME measure the carbon footprint for scope 1 and 2 of the equity portfolios.
- In 2018, PMT and PME committed to the climate agreement for the financial sector. PMT thereby commits itself to the aims of the draft agreement with regard to the reduction of CO₂ emissions. From 2020 onwards, the sector will report on the climate impact of financing and investment and has action plans drawn up by 2022 at the latest to limit this.
- On behalf of clients, MN looks at the possible negative impact on the valuation of the equities and bond portfolios as a result of future legislation and regulations (transition risks) in accordance with MSCI's methodology.
- On behalf of clients, MN looks at the possible negative impact on the valuation of the equities and bond portfolios as a result of changes in the physical environment (physical risks) in accordance with MSCI's methodology.

In addition, PMT and PME make investments with impact:

- PMT has set itself the target of having invested €2 billion in new impact investments by 2025. At the end of 2018, the Net Asset Value of the impact investments of PMT amounted to € 910 million euros; at the end of 2019 this was € 1137 million euros.
- PME aims for an annual allocation of approximately € 250 million to new impact investments. At the end of 2019, the Net Asset Value of PME's impact investments amounted to € 1130 million.

