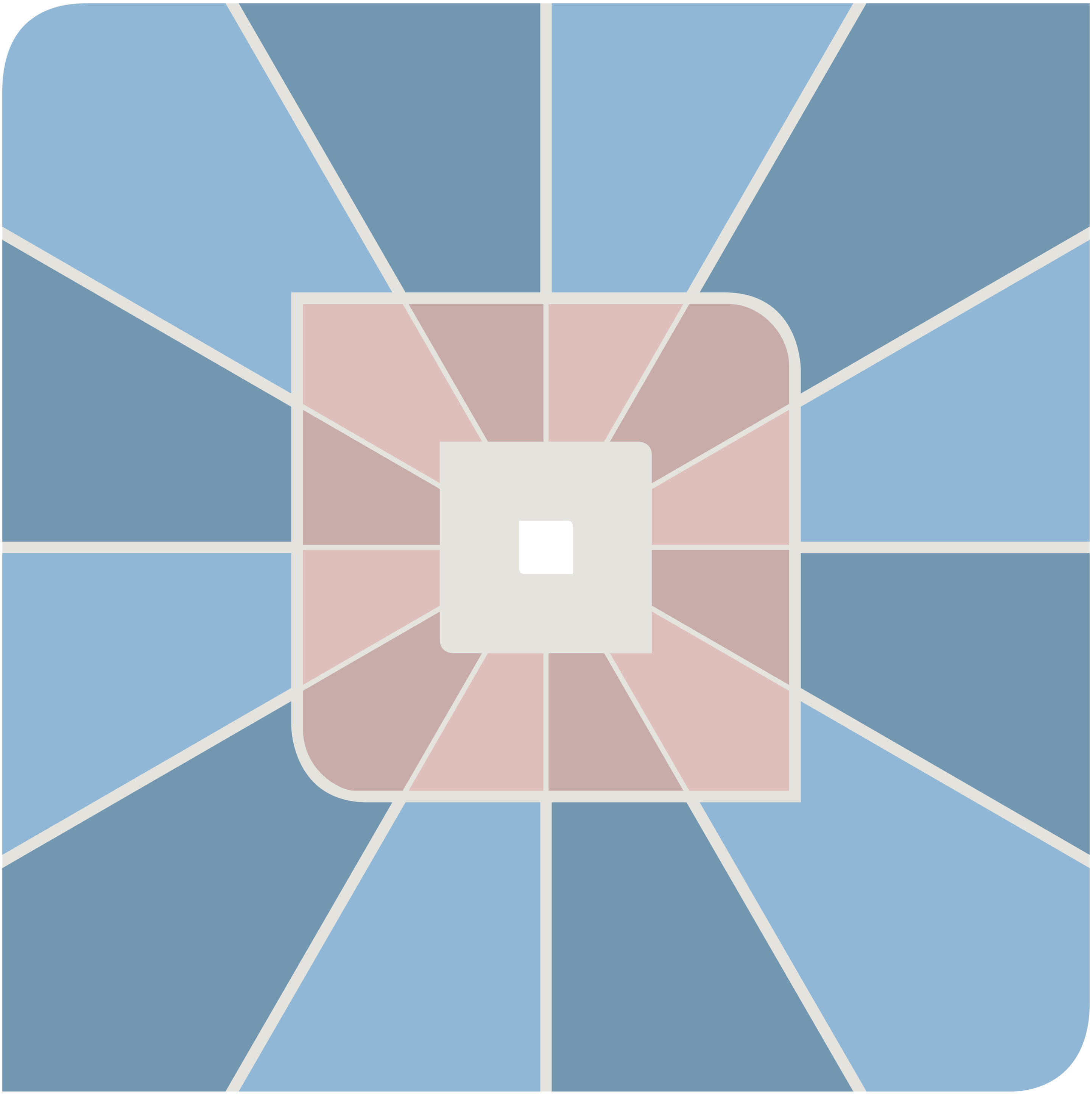
Annual Report 2020

On target in a year of change



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01. Introduction by the Board of Directors of MN

On target in a year of change

For MN, 2020 was a year of turning points. With the outbreak of the coronavirus in early spring and the pandemic that followed, MN, like most companies, had to drastically switch from working in an office to working from home. Another major revolution for the pension sector, including MN, is the new pension agreement. This paves the way for the implementation of a new pension contract and modernisation of the organisation. PME's decision to transfer the pension administration and communication to another administrator as of 1 January 2022 also caused a tipping point. On top of this, there is the separation of the implementation of insurances and social schemes in the pension business. For MN, these steps mean that it is clear what needs to be done in the next few years. A major task and, at the same time, a clear mission.

By way of five statements, Norbert Hoogers and Fleur Rieter indicate how MN remains on target in these times of major changes.

1 The world changed forever in March 2020...

The world will certainly look different after corona, we do not know yet how exactly.
We are still in the middle of the pandemic at the moment, but with the prospect of a way out thanks to the arrival of vaccines.

You can often prepare well for a change, but sometimes they come as a shock and take you by surprise, as in the case of corona. The global coronavirus emphatically demonstrated our vulnerability and proved to be the ultimate test for the agility of our organisation, processes and way of working. MN was able to absorb this shock well and quickly switch from working in an office to working from home. Our employees have shown great commitment, flexibility and resilience in this respect, allowing the service to continue 'as usual'. MN's infrastructure also proved robust enough to support this switch and thus guarantee continuity of service.

The corona pandemic caused great unrest in the international financial markets. In a short time, the value of the investment portfolio managed by MN decreased by more than 10%. By activating the right crisis protocols, it was possible to keep control over the development of the portfolios. The speed with which the markets rebounded was immediately reflected in the value of the portfolios. Performance in asset management was relatively good across the board, which contributes positively to the development of our clients' coverage ratios, also in comparison with other funds.

All in all, we have ascertained that online (collaborative) work is perfectly possible with today's technological means, even over greater distances, although social contact is sorely missed. Like many other organisations, we will seek a new balance, cleverly combining the best of both worlds – working at home and working in the office. It is expected that employees will work outside the office 20%-50% per week (mostly at home).

Apart from the commuting time it saves, working from home on a massive scale has shown that we can also manage with less business travel, which contributes to a more sustainable society. The use of video calls has grown enormously as a result of corona and has proven its worth. So here too we see a tipping point across businesses. For example, it is hard to imagine business air travel returning to previous levels.

Corona is a tipping point that lasts a long time, but we can use this moment to make sustainable choices and work towards a better world.

2 The pension agreement is revolutionary...

It is certainly revolutionary, although it took almost a decade to reach this agreement. The pension agreement is undoubtedly the most important change for the sector in the coming years. The '*Hoofdlijnennotitie Pensioenakkoord*' (Pension Agreement Outline Memorandum) that appeared in mid-2020 set the framework for the future pension system. All pension schemes will be converted to a defined-contribution agreement between 2022 and 2026. The pension is determined by the premium paid and the return achieved and will therefore fluctuate more. Notional interest rates and coverage ratios no longer apply. During the rest of the year under review, we devoted a great deal of attention to mapping out the consequences of the outline memorandum, both for clients and for implementation within MN and also in cooperation with the '*Pensioenfederatie*' (Federation of the Dutch Pension Funds).

Within MN, the pension agreement was examined on the basis of the integral pension proposition consisting of management advice, asset management, pension administration and communication. Impact analyses were carried out to get a picture of the (possible) consequences of the implementation of the new pension contract for our services. The new pension contract creates a closer connection between pension management and asset management as services. An initial exploration of these services has been realised and provides insight into how future processes can be designed.

3 The aim is a comprehensible, feasible, affordable and sustainable pension...

The implementation of the pension agreement will take until 2026 at the latest, which seems a long way off. However, much remains to be done in order to implement a comprehensible, affordable and sustainable pension by that time. In this, we work together with our clients, with the '*Pensioenfederatie*' (Federation of the Dutch Pension Funds) and the major pension funds and administrators. We are committed to the importance of the quality of the pension, but also to keeping it explainable, feasible and affordable. For example, in late 2020 and early 2021, political debates were held on the so-called 'lump sum' – the possibility of taking a lump sum, early retirement and the leave savings scheme. A legislative proposal to this end was passed by the House of Representatives at the end of 2020. However, the latest amendments to the '*Wet Bedrag Ineens*' (Lump Sum Act) have increased the complexity of implementation, both in terms of administration and communication to participants. Partly due to successful sector-wide attention in the run-up to the debate in the Senate, Minister Koolmees decided in mid-January 2021 to postpone the implementation by one year, 1 January 2023.

In the meantime, together with the pension administrators, we will look for ways to improve the feasibility: less complex, easier to explain and at lower cost.

4 Developments necessitate the reconsideration of the strategic framework...

In addition to the pension agreement, the announcement of the departure of '*Pensioenfonds voor de Metalelektro (PME)*' (The Pension Fund for the Metal and Electrical Sector) was also a turning point. PME indicated in November 2020 that it will have its asset management carried out by MN, but that it will transfer pension management to another administrator as of 1 January 2022. In order to manage this transition efficiently, preparations for a smooth transfer to the new administrator started immediately after the announcement of this decision.

At MN, 2020 and 2021 will also be characterised by reducing complexity for the future. The administrative implementation of the social schemes and 'WIA' (Work and Income [Capacity for Work] Act) insurances in the Metal & Technology sector will be separated from the Pensions and Insurance unit and placed in a new organisation - separate from MN - that will operate under the name '*USR*' ('*Uitvoering Sociale Regelingen*', Implementing Social Schemes).

As a result of all these changes, MN itself will also become a different company, but many of the spearheads of the Strategic Framework 2O19 will remain leading. The review focuses on how to operationalise our ambitions. It remains crucial to agree with clients in which parts of MN's services they want to be explicitly involved ('nearby') and in which parts a standard implementation is sufficient ('far away').

The choices made for a new pension contract and its implementation – in which social partners play a leading role – will determine how MN positions itself and in which form MN will operate as administrator. Our approach is to carefully round off and let go of the old, and to take new steps with courage and focus. The front-end of pension administration – the communication to participants and employers – will become even more important and individualised with the new pension contract. The back-end – the pension administration – will have certain processes becoming less distinctive or more standardised and MN will seek cooperation. Especially if it contributes to better service to employers and participants or lower costs per participant. Looking back, a good example was MN's initiative to investigate, together with other pension administrators, the possibility of setting up a shared service centre to carry out generic processes for our clients. This initiative was discontinued due to the priority given to the implementation of the pension agreement.

Other important strategic focal points that will continue to apply unabatedly are risk management and data management. Effective data management is a prerequisite for a successful future as a service provider. Data and IT are the foundation of MN's services. That is why asset management started the Data Centricity programme in 2020, working on a more data-driven service. This is important in the current setting and also forms a good basis for our services in a new pension system.

Digitalisation also brings risks. Working from home en masse has made us even more dependent on digitalisation; hackers have been enjoying a golden era worldwide since March 2020. Cyber security is therefore high on the agenda of all regulators and financial institutions, including MN, as part of risk management. In order to manage the risks from an integrated view, the Mn-wide 'GRIP' ('*Geïntegreerd Risico Implementatie Plan*', the Integrated Risk Implementation Plan) programme was set up in 2020.

5 2021 will be even more challenging than 2020…

That is a thought that befits a new year. The corona situation seems unpredictable for the time being, and so does the impact on the economies and financial markets in different parts of the world. In addition, 'corona' determines when our people can be in the office again, even though we will continue to work partly from home. The implementation of the pension agreement is already in full swing. 2021 will also be the year of transferring PME's pension administration to another administrative organisation and of unbundling the insurance administration from MN's pension business. At the same time, MN's IT landscape is being updated and further steps are being taken in digitalisation. All in all, we are dealing with several transitions that are running in parallel but are also intertwined, which brings with it the necessary challenges. So it will be all hands on deck in the coming period. Our ambition is and remains to work towards a new, modernised organisation. An organisation that is agile, with an eye for content and added value for our clients and where, as always, the interests of the participant come first. Our social task remains, in any case, to provide a good pension in a better world.

The flexibility, dedication and focus on quality that we have seen in the past year give us confidence for the future. We feel strengthened by the experience of 2020 to respond – together with our clients – to challenges we know, but also to unexpected events, and to provide direction and clarity at all times. That is how we stay on track.

Norbert Hoogers,
chief executive officer (CEO), statutory member of the Executive Board of MN

Fleur Rieter,
chief financial and risk officer (CFRO), statutory member of the Executive Board of MN

02. About MN

MN Profile

MN is a financial service provider with € 169.1 billion of (pension) assets under management (year-end 2020). MN supports 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 and pension communication. MN also provides asset management services to '*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), the '*Ondernemings-pensioenfonds Mn Services*' (Mn Services Company Pension Fund) and NV schade. Until 2022, MN will also administer (supplementary) income insurance policies for various parties: NV schade, UVVS, Bovemij and the ROM. Until 2022, MN also provides services to the R&D funds and Social Funds in the Metal & Technology and Motor Vehicle sectors.

The relationship between MN and its clients is characterised by continuous cooperation, a long-term focus and a not-for-profit attitude. 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. MN has a strong social profile: sustainability is self-evident in our thinking and working.

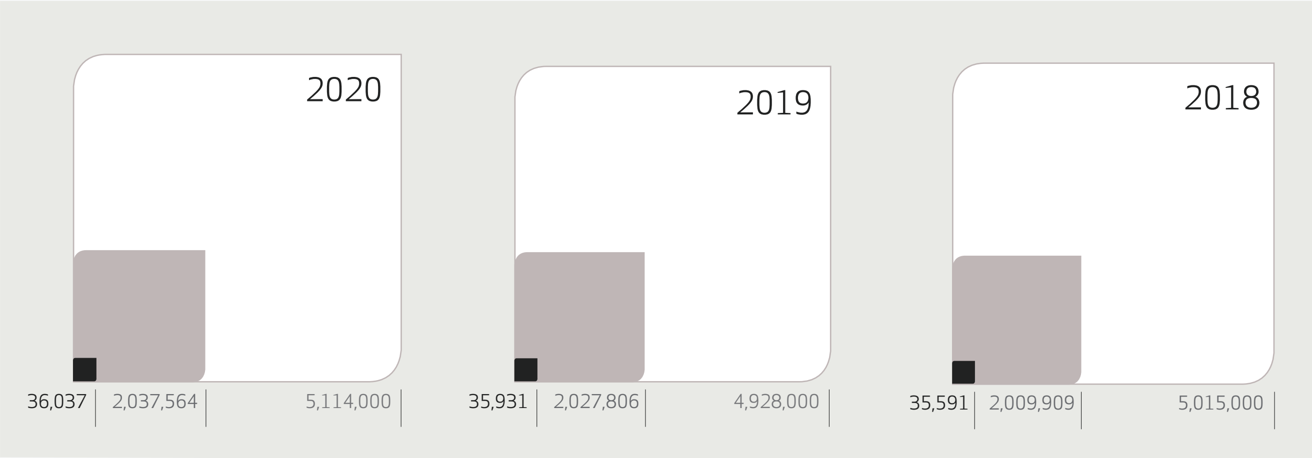
A good pension in a better world

MN works on a good pension in a better world every single day. This is done for more than two million people and approximately 36,000 employers in the Metal & Technology, '*Metalelectro*' (Metal and Electricity) and Maritime sector. MN stands up for 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. MN employs specialists, technicians, administrators, strategists, consultants and innovators. MN is a target- and service-oriented service provider, with a focus on quality and transparency, and attention to people and the environment. Together with clients, we work on future-proof solutions. Achieving a good return at the lowest possible cost is the main objective, so that participants can enjoy a good pension in a better world.

Key figures

Number of employers, participants and payments in 2018, 2019 and 2020

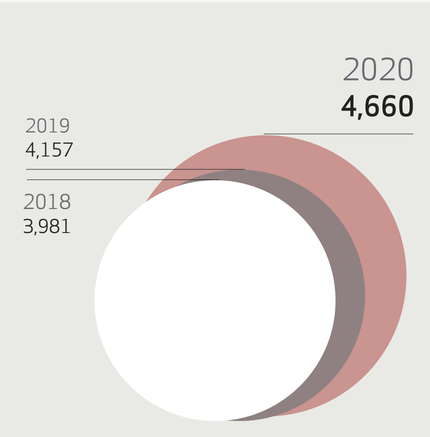


Employers

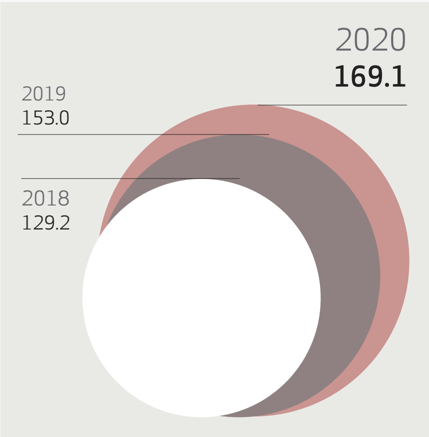
Participants

Payments to participants

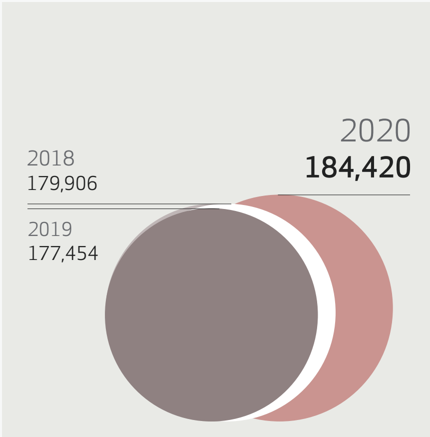
Premium turnover
in 2018, 2019 and 2020 (x € 1 million)



Assets invested
in 2018, 2019 and 2020 (x € 1 billion)



Net turnover
in 2018, 2019 and 2020 (x € 1,000)



2018

2019

2020

03. Strategy, trends and developments

MN offers an integral pension proposition consisting of management advice, asset management, pension administration and pension communication. This proposition is characterised by intensive, direct cooperation with clients, a long-term focus and a not-for-profit attitude. MN focuses on high quality services at competitive costs. Social involvement and responsibility are the common theme throughout the company's strategy and business operations.

Trends and developments

The new pension contract is undoubtedly the development that will dominate the pension sector in the coming years. The frameworks have been set, but the exact interpretation by the judiciary, pension funds, social partners and implementers must still be worked out in the coming time. This is and will remain an important theme for MN as well. Furthermore, one of the clients – '*Pensioenfonds Metalelektro*' (PME, the Pension Fund for the Metal and Electrical Sector) – has announced that it will relocate MN's pension administration and communication services as of 2022. It goes without saying that this is also a development that will require attention and time in the coming year and will subsequently lead to adjustments in services and organisation. Finally, MN, together with its clients and its shareholders, has decided to privatise the insurance proposition by the end of 2021. This will bring further focus to MN's service provision and will follow the course set by pension administrators such as APG and PGGM in the past. Nevertheless, the broader trends we observed in recent years, such as digitalisation, corporate social responsibility and cost reduction, are still relevant. The corona crisis has also boosted the development of time- and place-independent work. Based on this experience, large-scale work from home will continue in the future.

Digitalisation

The increasing digitalisation that we have been seeing for some years now continues unchanged and has even been accelerated in the past year by the corona crisis. The digitising world largely determines the wishes and needs of society and business. Consumers are strongly influenced by digitalisation and take experiences from other sectors with them when they start with their pensions. Companies increasingly use technology to maintain and strengthen their relationship with the end user. The resulting user data is used to personalise services and products and make them more successful. A modern communication approach is crucial here. From mass to omni-channel communication, adapted to the wishes and needs of different generations and target groups of MN, and even at an individual level.

Socially responsible investing

Socially responsible investing (SRI) is now the standard for the investment policy of MN and its clients. This mainly concerns the integration of non-financial factors into investment decisions and better assessment of the (long-term) sustainability and expected return of investments. In addition, SRI is increasingly about the impact of investments on the real world. MN is also devoting more attention to initiatives that map out the consequences, such as the Sustainable Development Investments (SDIs) or investments that contribute substantially to the Sustainable Development Goals (SDGs).

Reduction of costs

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' ('*Algemene Ouderdomswet*', the General Old Age Pensions Act). Our responsibility to employers and members to provide adequate pension management is major. This applies to the execution of the existing system, but also to a good transition to management of a new pension contract.

As a pension administrator, MN's ambition is to continuously improve the quality and costs of its services and to make conscious choices in this respect. On the one hand, society expects us to perform our task as administrator as efficiently as possible and to keep costs as low as possible. This is reinforced by the increased transparency and attention paid to pensions. On the other hand, commercial parties, both within the pension and asset management sectors, are putting pressure on prices in an attempt to capture market share. The advent of the new pension contract offers opportunities to reduce costs in the long run by focusing on the possibility of simplification. Standardisation and complexity reduction are two important tools for MN. On the other hand, the costs are rising in relative terms due to decreasing scale. We will discuss this with PMT, our main shareholder.

Location-independent work

The corona crisis has turned the whole world upside down in a few months, from 'working in an office' to working anywhere and collaborating remotely. For a large part of the year, the Netherlands, including MN, worked from home. This proved possible for many companies, including MN. It is therefore expected that this development of location-independent working will continue and become part of the regular way of working.

Focal points for 2021

For 2021, the focal points are:

- Pension reform remains important. (Digital) client service and communication are improved, supported by the pension administration reform. The reform seeks to modernise the IT landscape of MN with the '*Nieuwe Pensioen Stroom*' (NPS or 'New Pension Power') programme. In this way, we work on a price and quality in line with the market and on the future-proofing and manoeuvrability of all components of the pension proposition.
- MN is continuing to build on digital and data-driven asset management. In this way, MN keeps the quality of the service up to standard and will remain an attractive, flexible employer and partner for its clients in the future too.
- In mutual consultation with its clients, MN is mapping the options within the new pension agreement and is investigating the implications for its clients and the administration. The final choices are translated into the MN proposition and into a roadmap for a successful transition to the new pension contract. MN is directing the funds in order to realise this enormous transition.
- MN is focusing on a careful transfer of PME pension management to another administrator and the privatisation of the insurance proposition.
- MN is working on further strengthening its risk management.

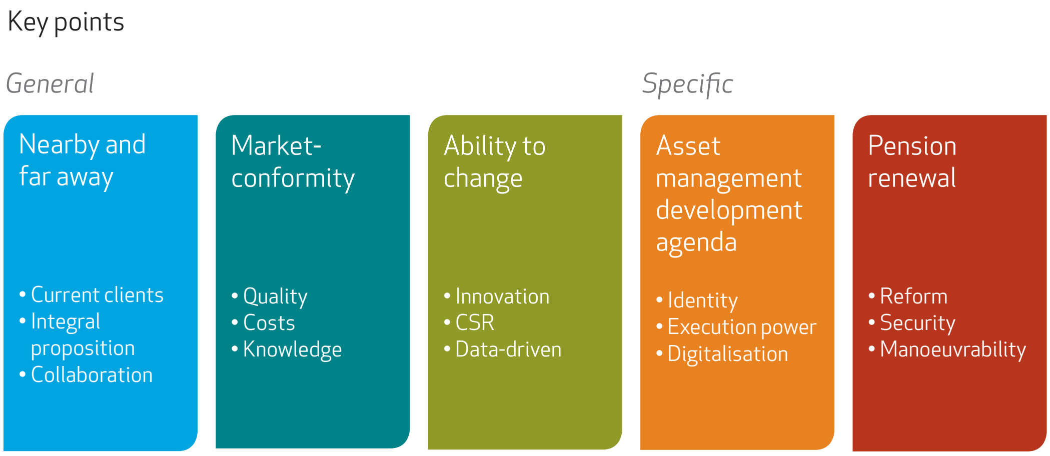
These focal points for 2021 are to help MN to innovate in a timely and appropriate manner, to be and remain market-compliant and to continue to develop its ability to change. In this way, MN gives substance to the strategic framework and builds a constantly improving service for its clients.

In order to accelerate the envisaged pension reform, MN is investigating alternative possibilities for NPS at the request of PMT. As a result of this research, the development of parts of NPS was stopped at the end of March. This limits the size of the process, the costs and the risk profile. In close consultation with PMT and '*Bpf Koopvaardij*' (Merchant Navy Pension Fund), other scenarios are being investigated.

Strategic Framework

The strategic framework that MN developed in 2019 together with its clients and shareholders outlines the ambitions for the development of services in the next few years. Crucial in this is the agreement in which parts of the services the clients of MN want to be explicitly involved ('nearby') and in which parts a standard implementation is sufficient ('far away'). In view of the announced departure of one of MN's major clients for pension management, 2021 will be partly devoted to reassessing this strategic framework. Nevertheless, it is assumed that the major themes from the current strategic framework remain relevant. The change that is sought is in the way these themes are operationalised.

MN strategic framework



04. Responsible asset management

For '*MN Vermogensbeheer*' (MN Asset Management), 2020 was a challenging year. The corona pandemic caused great unrest in the international financial markets. There was a new pension agreement as well, the impact of which on MN's asset management organisation was mapped. '*MN Vermogensbeheer*' (MN Asset Management) also took significant steps in the field of digitalisation, further ESG integration and risk management.

Environment

Corona crisis

The global outbreak of the coronavirus has a major impact on society and the economy. Due to the large-scale lockdowns in many parts of the world, the global economy came to a virtual standstill in 2020. Especially in the early 2020s, the corona crisis caused great instability in the international financial markets, which also had an impact on the asset management organisation. '*MN Vermogensbeheer*' (MN Asset Management) started working completely digitally in March. This change has gone smoothly and has not caused any significant problems. In addition, MN has mitigated the risks for its clients by increased portfolio monitoring, setting up additional Investment Committees and maintaining intensive contact with clients.

Sustainable Finance

In 2016, the EU established a Sustainable Finance Agenda. This has resulted, inter alia, in the Sustainable Finance Disclosure Regulation, the so-called EU taxonomy of sustainable economic activities, the EU Green Bond Standard and benchmarks focused on climate transition and aligned with the Paris Agreement. MN also supported the EU's Sustainable Finance agenda on behalf of clients in 2020. The first regulations for MN and clients came into force on 10 March 2021. Information will have to be provided on how clients view sustainability risks, on the sustainability features of the pension scheme and on how clients view adverse global impacts when they invest. In 2021, the new regulations resulting from the Action Plan Financing Sustainable Growth will be implemented.

ISRI Covenant

Within the ISRI (International Socially Responsible Investing) covenant, pension funds, NGOs, trade unions and the government work together to reduce the risks of companies in which they invest. MN and its clients are already committed to the international guidelines on which these covenant agreements are based and have already incorporated these into their policies. This process is constantly improving and changing. MN takes on an active role in the ISRI covenant on behalf of clients, to share knowledge and experience. MN and clients also ensure that SRI is given an increasingly prominent place in the SRI due diligence processes.

Commitment of the financial sector to the climate agreement

In line with the agreements made within the financial sector in connection with the Dutch climate agreement, MN intends, on behalf of its clients, to set CO2 reduction objectives for relevant investments and to publish these and the corresponding action plans no later than early 2022 (refer to annex III for further explanation). In support of this, MN is an active member of Partnership for Carbon Accounting Financials (PCAF) in the Netherlands, which conducts research into measurements of various investment categories (refer to www.carbonaccountingfinancials.com).

Brexit

The UK financial sector will lose access (via so-called 'passporting') to the European market, and vice versa, as a result of Brexit. To avoid MN being unable to trade with UK-based counterparties on behalf of clients, MN withdrew from the United Kingdom (UK) as much as possible before the transition period ended after 31 December 2020. This applied to both derivatives trading and external asset management.

Innovation

'*MN Vermogensbeheer*' (MN Asset Management) wishes to continue improving its service provision in the next few years. Innovation is therefore an important issue. MN set up its own innovation lab to promote innovation, the so-called Mlab, at the beginning of 2019. The aim of this lab is to develop new products and services via a fixed process, without disrupting regular business. In 2020, the Mlab carried out several projects, such as the Smart Research Project. '*MN Vermogensbeheer*' (MN Asset Management) makes extensive use of research, for example when analysing the financial markets, using research from other reputable parties. For this purpose, a prototype was developed that distributes data from various research providers, for example from large banks, in the asset management organisation. This makes the research that is centrally available accessible.

Digitalisation

Data and IT constitute an important foundation of the services of '*MN Vermogensbeheer*' (MN Asset Management). That is why the Data Centricity strategic programme was launched. This programme works towards a more data-driven service by combining processes, systems and organisation. In 2020, the basic architecture for this is scheduled to be completed, with the so-called flexible data hub at its centre. Using this data hub, operational risk is reduced by reducing complexity and increasing data quality. This also creates more opportunities for analysis and insight, leading to higher performance, shorter turnaround times and greater agility. Examples of improved processes using the data hub include the calculation of the '*Vereist Eigen Vermogen*' ('VEV', or Required Capital), which is now fully automated, and the establishment of an automated process to ensure that clients have sufficient liquidity at all times when executing foreign exchange trading orders. Both processes have thus become fully transparent and less prone to error, while also saving on transaction costs for clients.

Product developments

ESG integration – Conscious Selection

As a long-term investor, MN attaches great importance to sustainability. This is expressed, for instance, in the 'Conscious Selection' strategy that MN has developed in recent years in cooperation with clients for the developed-country equity portfolios. The starting point of the portfolio is that pension fund boards know what they are investing in and why. To this end, preconditions have been drawn up with which shares must comply before investments can be made, taking ESG factors (environmental, social and governance factors) into account, among other things. This strategy was also applied to MN's equity funds last year. Participants in these equity funds were informed of the strategy and preconditions via a digital workshop. In addition, conscious selection has also been implemented in 2020 in the emerging market equities portfolios of PME and PMT. The aim is to apply this way of thinking to multiple asset classes in the coming years.

New liquidity management policy

The liquidity management policy is used to determine the level of liquidity required by our clients. The objective of this policy is to be able to meet all payment and collateral obligations in the portfolio without maintaining excess liquidity. We saw exceptional market conditions in the corona crisis in the first half of this year. If market liquidity deteriorates and there is increased volatility in certain parts of the financial markets, it is particularly desirable to hold more liquidity. To provide for this, the new policy takes into account two systems: i. normal market conditions and ii. highly volatile markets. In the high volatility system, more liquid assets will be held.

Impact investments

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 is convinced that making a positive contribution to society and achieving a good return go hand in hand. The investment must fit within one of the identified impact themes:

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

SDI's

Investments in companies that contribute to the Sustainable Development Goals are called Sustainable Development Investments (SDIs). Investments that promote the SDGs can be made in different investment categories. MN and its clients carried out measurements in 2020 to determine the extent to which investee companies contribute to the SDGs.

Collaboration

MN is increasingly looking at opportunities for cooperation to increase its expertise, efficiency and scale. Partly in light of this, MN entered into a partnership with NN Investment Partners (NN IP) in the field of emerging markets debt (EMD) in September 2020. EMD was an asset class that MN managed internally. With this partnership, the EMD team of MN and the assets managed by the team are transferred to NN IP. MN is committed to providing the best solutions for its clients. With this partnership, MN is able to keep the costs for its clients attractive, while benefiting from NN IP's extensive EMD knowledge and scale. In this way, MN can expand the service provision for its clients and guarantee its continuity.

(Inter)national cooperation

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 investors and other parties that promote sustainable investing.

Partnerships

- **CA100+** The climate dialogue programme is executed in cooperation with Climate Action 100+ (see also www.climateaction100.org). CA100+ is an alliance of more than 545 investors (combined assets of 52 trillion) who together conduct a dialogue with the 160 most polluting companies in the world. The objectives of the climate dialogue programme of MN and our clients are in line with those of CA100+. MN measures the progress of companies on the basis of sub-objectives included in a scorecard. In 2020, CA100+ has developed a benchmark used to score all companies. Progress has been made at all companies with which MN has spoken in 2020.

- **IIGCC** Karlijn van Lierop, Head of Responsible Investment at MN, is also a board member of the IIGCC (Institutional Investors Group on Climate Change, also refer to www.iigcc.org). 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.

- **PLWF** On behalf of its clients, MN is one of the founders of the Platform Living Wage Financials (PLWF), an investor coalition that works to achieve living wages and incomes in international production chains. The members of the PLWF, including MN, held dialogues with 9 companies from these sectors in 2020 (refer to the framework below).

- **Eumedion** MN works closely with Eumedion, a pressure group, and its members in order to exert influence on behalf of clients at the General Meetings of Shareholders (GMSs) of Dutch listed companies. Caroline Muste-Merks, MN’s director of fiduciary advice, has been a member of Eumedion’s governing board since December 2020.

Platform Living Wage Financials (PLWF)

On behalf of its clients, MN is one of the founders of the Platform Living Wage Financials (PLWF), an investor coalition that works to achieve living wages and incomes in international production chains.

A living wage is the minimum income required by an employee to meet his or her basic needs, as well as the basic needs of his or her family, including a certain disposable income. This must be earned within the statutory limits on working hours (in other words, without overtime).

Since the official launch of the PLWF in 2018, the number of financial cooperation partners has grown to 15 (as of December 2020) with estimated assets under management of more than EUR 2.6 trillion. In addition, the initial focus on the textile sector has been broadened to include other labour-intensive sectors such as the agricultural and retail sectors.

The members of the PLWF, including MN acting on behalf of clients, held dialogues with 51 companies from these sectors in 2020. These discussions included purchasing practices, the steps companies take to understand the living standards of employees in their supply chains, and the extent to which companies work with stakeholders such as suppliers and trade unions to promote living wages and incomes. The impact of Covid-19 also constituted an important topic during 2020.

The investor coalition has once again assessed the progress of these companies in 2020 using a self-developed living wage assessment methodology aligned with the United Nations Guiding Principles. The results were presented at the annual PLWF conference in early October, which this time took the form of a webinar. Here we reflected on the progress of the past year and, together with social partners, looked ahead to the steps that are still needed to achieve sector-wide changes in the area of living wages and incomes.

In 2019, as international recognition of its pioneering work in the area of living wages, the PLWF was awarded the global PRI (Principles for Responsible Investments) award for best initiative in the field of socially responsible investment and active shareholdership.

Active shareholdership

On behalf of its clients, MN wishes to be an active shareholder in companies in which it invests. MN does this by entering into 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 for active shareholdership and reports on these to its clients.

1. Energy transition

In 2020, MN evaluated the new client climate dialogue programme. The programme was launched in early 2019. Nine companies were selected for this new dialogue programme that have the greatest exposure to climate risks in our clients' portfolios. The companies fall into two relatively polluting sectors: oil & gas companies and utility companies. Over a period of two years, intensive dialogue will be conducted with these companies in order to achieve the following three objectives:

1. Insight into climate risks
2. Sustainable strategy with corresponding long-term objectives
3. Disclosure of information according to the TCFD framework

2. 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. In 2020, MN has focused on the following themes:

- Living wages in the textile sector
- Combating child labour in cobalt mining
- Good working conditions in the agricultural sector
- Safety and compliance with labour rights in the textile sector

3. Good corporate governance

In the field of governance, MN held discussions with companies on behalf of clients in 2020 about subjects such as remuneration policy, diversity in the composition of the board of directors and the extent to which companies report on their long-term strategy.

Organisation

Manoeuvrability

MN Asset Management is required to adapt quickly to changes, to deliver services faster and to create maximum value for its clients. In 2019, a programme was started to introduce continuous improvement and adjustment into the DNA of MN Asset Management; this programme was implemented further in 2020. In various areas of its core processes, MN Asset Management has adopted short-cycle working within a multidisciplinary environment. This has significantly improved mutual cooperation and strengthened customer service. In addition, processes have been optimised so that they can be carried out more efficiently. Best practice elements of the Lean and Agile methodologies have also been introduced, which ensure that insight into the work has been increased and challenges are solved in a more structured way.

Risk management

Good risk management is of great importance to MN Asset Management. In 2020, much attention was paid to non-financial risk management. In order to structurally increase and continue developing the knowledge and expertise in this field, a non-financial risk management expertise centre was set up within MN Asset Management in 2020. This expertise centre will support the management and business sides in managing risk by providing best practices and standards, monitoring progress and continuing to improve the quality of non-financial risk management.

Climate risks

Climate change is one of the major challenges we face as a society. MN and its clients have chosen to take a pioneering role in dealing with climate change. MN believes 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 investment returns. MN and its clients are committed to measuring and reporting the CO_2 emissions of relevant investments and financing under the Climate Agreement. MN prepared a TCFD report for the fourth consecutive year this year (refer to annex II).

Exclusion

On behalf of its clients, MN excludes companies if their activities or part of their activities are in violation of international treaties. MN can also exclude a company if talks with this company about a significant ESG risk have not led to the intended results. In addition, MN does not invest in government bonds of countries that are subject to international sanctions. In 2020, MN excluded 12 countries and 32 companies on behalf of its clients on the basis of international legislation or on the basis of principle.

Future

2021 will also be a challenging year for MN. Based on the recommendations of the '*Impact Pensioenakkoord op MN Vermogensbeheer*' (Pension Agreement Impact on MN Asset Management) analysis that took place in 2020, a programme structure will be set up in which a large number of issues will be addressed. For MN Asset Management, this means that in addition to continuing the current service provision, a great deal of time will be devoted to advising clients on decisions to be taken in connection with the pension agreement and implementing the organisational and technical consequences thereof.

In order to continue to provide clients with high-quality services at low costs, MN Asset Management wishes to realise its ambitions in the field of IT and digitalisation in the next few years. Strategic investments are necessary to ensure future-proof and high-quality services in an increasingly digital and data-driven era.

In 2021, this will still largely have to be done from home. In order to facilitate this properly, tools are used that are in line with the new way of working. We expect that, after the pandemic, MN employees will move more towards a combination of working at home and at the office. What the office of the future will look like is also being investigated within the asset management organisation.

Annex

I Task Force on Climate-related Financial Disclosures: Report

Governance, administrative overview

The final responsibility for MN’s overall investment policy rests 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 ‘*Vermogensbeheer*’ (asset management) team reports to the board of MN Vermogensbeheer B.V. A multidisciplinary working group of experts on climate risks and opportunities is working on various projects including, for example, alignment with the Paris Agreement. This expert working group has representatives from the different parts of the investment chain. MN's head of responsible investment is also represented on the board of the Institutional Investor Group on Climate Change (IIGCC).

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 in it.

1. Investment beliefs > 2. Strategy formation > 3. Selection and monitoring > 4. Investment decisions > 5. Reporting

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 Agreement. Costs for companies may increase as a result of higher CO_2 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 an increase in temperature 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.

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

MSCI has identified transition risks for MN's clients.

Investeringskansen

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 in which two touch on climate investment opportunities:

- Circular Economy
- Energy transition

Investment beliefs

The clients' '*Strategisch Beleggingskader*' (Strategic Investment Framework) sets out the investment, execution and risk management principles. In the investment principles, responsible investment is explicitly mentioned in two principles.

The first added investment principle states that the investments of MN clients have an impact on the real economy and society. With the inclusion of this principle, MN and its clients can take responsibility, in principle, for the consequences of its investments on the real world. It thus 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 investments that take sustainability, or in other words the Environmental, Social and Governance (ESG) factors, into account are profitable in the long term. The harmful consequences of an economic activity cannot be passed on to people, society and the environment indefinitely.

MN's clients have included a risk management principle that relates to the impact of climate change on the clients' investments. On behalf of the clients, MN monitors ESG risks explicitly: the risks of a changing world on the investments of clients. These in any case include financial loss due to regulation or other government intervention, financial risk due to climate change and disruptive economic change. The inclusion of the principles described above in the investment principles enables MN and clients to build on them in the rest of the investment chain. The following processes contribute to the identification of climate-related risks and opportunities.

Strategy formation

MN's clients have 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 '*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 imposed preconditions on companies to be included in the equity portfolio.

PMT wants companies to conduct their business in a proper manner, taking into account E, S, and G. Half of the companies in the standard benchmark meet the requirements; approximately 800 of the 1600 companies have been selected as PMT investments. How companies deal with climate change is an important prerequisite in this respect. In 2019, a similar strategy was applied to the equity portfolio of emerging market equities.
- 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 participants 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 itself 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.
- 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 CO_2 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 we speak of 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. If the transition is stressful, 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.

MSCI results

The results reported here only 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 are increasing in scenarios in which current CO_2 emissions need to be reduced more, such as in the 2 degrees and 1.5 degrees Celsius scenarios. As a result, companies have to switch to other production techniques faster or have to deal with other income models. This is expected to involve more costs.
- 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.
- 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 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.

1. Investment beliefs > 2. Strategy formation > 3. Selection and monitoring > 4. Investment decisions > 5. Reporting

Figure 2: Components of the investment chain used to identify and control 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 CO_2 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. In the selection and monitoring of external asset managers, a Planet score is therefore given, with points being awarded for the level of policy, climate integration and reporting.

For property 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 joins forces to talk to the top 160+ that are the largest emitters of CO_2. On behalf of its clients, MN asks companies to firmly anchor the climate theme in governance processes, to reduce CO_2 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 four companies on these grounds in 2020.

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 (first 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 duties. 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.

1. Investment beliefs > 2. Strategy formation > 3. Selection and monitoring > 4. Investment decisions > 5. Reporting

Figure 3: Parts of the investment chain that are relevant for units of measurement and targets.

Units of measurement used

MN maps out climate risks and opportunities in the portfolios using the units of measurement set out 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 CO_2 emissions. The sector will report on the climate impact of financing and investments from 2020 onwards and will have drawn up action plans for reducing it by 2022.
- 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 2020, the Net Asset Value of PMT's impact investments amounted to €1176 million, of which €133 million was within the energy transition theme and €23 million within the circular economy theme.
- At the end of 2020, the Net Asset Value of PME's impact investments amounted to €1264 million, of which €482 million was within the energy transition theme and €23 million within the circular economy theme.

II Commitment of the financial sector to the climate agreement

Relevant investments for commitment of the financial sector to the Dutch climate agreement

In line with the agreements made in terms of the financial sector's commitment to the Dutch climate agreement, MN intends to report the carbon footprint for all relevant investments and to set, in 2022, CO_2 reduction objectives for 2030.

Relevant investment categories

MN considers the investment categories of equity, corporate bonds, real estate and infra-structure relevant in the context of the agreements made in the climate commitment. MN can use its investment policy to influence the carbon emissions of these investments through, for example, voting policy, engagement, excluding certain investments or instructing asset managers to include carbon emissions in their investment decisions.

Liquid equity portfolios

MN's insight into the CO_2 emissions of the relevant investments is still incomplete. In this annual report, the choice has been made to only report the CO_2 emissions of the liquid equity portfolios for the time being, because these can be measured in a sufficiently reliable manner and because there are relatively many opportunities to influence the CO_2 emissions of the investments in this investment category. This is because MN can influence the investments in the liquid equity portfolios as a shareholder and has an engagement programme for companies in the sectors where a large contribution to CO_2 reduction is expected.

Size of relevant portfolios

MN aims to expand the CO_2 reporting in the coming years and also to report the CO_2 emissions for the other relevant investments. The size of all relevant portfolios is € 90.1 billion and 53% of the value of the total investment portfolio. The size of the liquid equity portfolios is €48.8 billion and 54% of the value of the relevant investments.

Methodology for measuring carbon footprint

Scope

MN measures the carbon footprint of all its clients. The measurement of the carbon footprint of PMT and PME relates to the listed equity portfolios. In doing so, the holdings at the end of 2019 were used. Based on this, the emission intensity (kgCO_2e) per 100 euros invested in the share portfolio was calculated. The emission figures include the scope 1 and 2 carbon footprint. Scope 1 entails direct emissions, e.g. from the use of company facilities and vehicles. Scope 2 entails the indirect emissions associated with the production of electricity purchased.

Indicator and measurement method

Emission intensity is the statistic used to express the carbon footprint of the equity portfolio, expressed as Emission Exposure per 100 EUR invested. This statistic shows how many kilograms of CO_2 an investor finances with each 100 euro invested. It is important that all data used is measured at the same time, in this case 31 December 2019.

Allocation of emissions

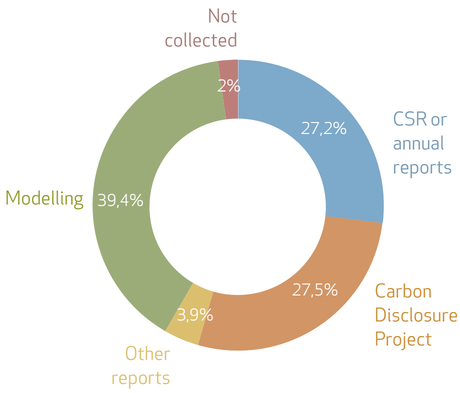
In line with the *ownership* principle of the Greenhouse Gas Protocol, an investor becomes the 'owner' of (part of) a company's emissions when it owns shares in the company. The amount of emissions allocated to the shareholder is in proportion to the number of shares held. When an investor owns 0.1% of a company, 0.1% of the company's total emissions are allocated to the investor. At portfolio level, emissions are aggregated on the basis of allocated emissions.

A common term for the allocated emissions is Emission *Exposure*. The Emission *Exposure* is calculated by multiplying the total emissions of a company by the percentage of the company held by the investor. For this measurement, use was made of the total market capitalisation of the companies analysed.

Data sources and data quality

The source data used to calculate the carbon footprint for the equity portfolio is provided by ISS and shows the emissions of companies as at the end of 2019. This data provider in turn obtains data from four different sources:

- CSR or annual reports: many companies measure their greenhouse gas emissions themselves and publish them in their annual report or CSR reports.
- Carbon Disclosure Project: some of the companies publish their emissions via the Carbon Disclosure Project (CDP), a non-profit organisation that supports companies in this process.
- Other reports, for example from NGOs; companies that do not publish emissions data themselves are sometimes investigated by external parties who then publish the data.
- Modelling: together with the Swiss Federal Institute of Technology (ETH) in Zurich, ISS has developed a model to estimate the emissions of companies for which published data is missing or unreliable.



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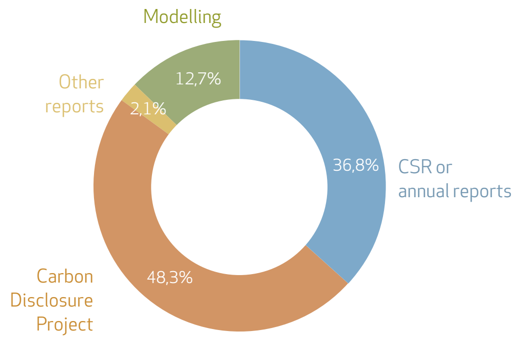

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