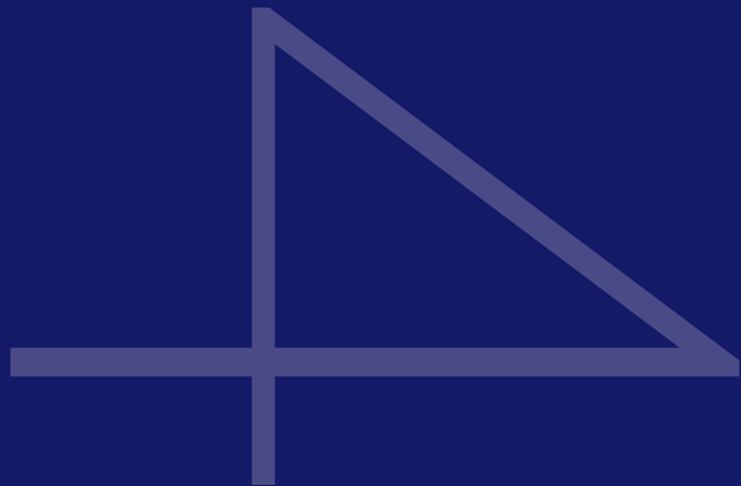




Corporate Social Responsibility Report



Foreword

For MN, 2014 was in many ways a turbulent year. This was because of the changes that were initiated to make the Dutch pension system more future-proof. Our society is changing drastically and the pension sector will have to adapt if it is to continue its important role as a provider of financial security to those who have retired. That is why MN is working together with its clients to maintain the pension system. We are, for instance, responding to social trends, such as increased life expectancy and the growing number of self-employed persons. We must respond to public demands for more individual solutions, while retaining the advantages of collective schemes and solidarity.

Pensions are a long-term matter (a time horizon of forty years is no exception), whereas changes in society can occur rapidly and may even disappear again. Balancing these considerations demands creativity and innovative power and no matter how keen we are to find solutions, they are not always available. In this report, you can read how MN, together with its clients and other stakeholders, is facing up to these challenges in the short and long term and developing practical solutions. MN wishes to be at the forefront when it comes to administering pensions in a customer-driven and socially responsible manner.

Clients expect MN to administer pensions and manage insurance faultlessly and to provide excellent advice, and all at affordable rates. For MN staff, this means a constant focus on providing the best quality. In the past year, MN has had frequent and close contacts with clients regarding further improvements in the quality of services. This report explains our objectives and the corresponding improvement actions.

The markets are developing rapidly and people want simplicity and transparency. That requires fully functional business operations in order to provide an excellent and rapid service. The MN3.0 change programme is an important development in this respect. This programme was launched in 2014 to make our organisation more customer-driven, efficient and effective, at lower costs and with a more extensive range of digital service provision for employers and members. MN3.0 focuses on the culture and staff of MN on the one hand, and on the organisation structure on the other. Where possible, working processes are becoming increasingly automated, which has inevitable consequences for our employees. We are expecting more than 200 full-time jobs to disappear in the next four years. We expect to bring about this reduction in a socially responsible manner by means of natural staff turnover, training and reassignment. With a training budget of 3.5% of the wage bill, MN is investing in training and development because the MN staff are the determining factor for the success of the change programme. The inspiring examples in this report show that the growth of the organisation can go hand in hand in with personal development. I am therefore confident that MN will retain its position as a leading pension administrator and make an important social contribution to the financial future of people in the long term.

Focusing on the future also means contributing with our clients to the level of prosperity in a healthy living environment. That is why MN is actively participating in initiatives to use pension assets to reinforce the economic infrastructure of the Netherlands. SMEs make an important contribution to the Dutch economic structure and the continued development of this sector is crucial. As one of the largest asset managers in the Netherlands, we consider it vital to contribute to the reinforcement of the national economic infrastructure. This explains MN's participation in the National Investment Institute (NLII), an investment fund with a specific emphasis on SMEs. SMEs have a strong focus on innovation, which is geared mainly to making society more sustainable. For pension funds, in particular, it is essential to invest in making society more sustainable to ensure a healthy living environment in the future. MN is actively contributing to this aim by investing in a socially responsible manner. The responses from clients are positive. In 2014, they greatly appreciated MN's service provision with regard to socially responsible investment. MN is in the top quartile of the annual UN PRI survey (an international responsible investment benchmark). This provides us with an excellent basis to develop the socially responsible investment policy in the years ahead in order to bring about the viable financial future that people deserve.

When considering all these development, we must not lose sight of the human aspect. In the end, everything we do must be for the benefit of pension scheme members, both actives and pensioners. They expect us to do our work properly and to be able to explain to them in clear and basic language what membership of the pension fund means. That is also part of our social responsibility.

The Hague, 13 April 2015

Walter Mutsaers, Chief Client Officer

Contents

7	MN Profile
8	Key figures
9	MN Profile
12	Business model and core activities
15	Strategy
23	CSR organisation
24	MN and society
26	External developments
27	New pension scheme
27	Pension reduction
28	Cost efficiency
29	Legislative changes
31	Future changes to the system
32	Influence of external developments on MN
35	Responsible pensions and administration
37	Implementing pension reductions
38	Policy advice regarding the structure of pension schemes
40	Cost control
43	Quality of the service provision
45	Pension communication
49	Responsible insurance administration
51	Responsible insurance
55	Responsible asset management
57	Role of MN in responsible asset management
58	MN's SRI policy
59	Implementing the SRI policy of clients
69	From responsible asset management to sustainability
70	Responsible investment communication
71	Joint initiatives relating to sustainable financial markets
73	Summary of results and ambitions in 2015

77	Future-driven personnel policy
80	Human Resources strategy
81	Transformation
84	Manager reinforcement
87	Boosting the desired performances
89	Staff vitality
91	Staff satisfaction
92	Social engagement
95	Compliance and risk management
97	Compliance
100	Risk management
103	Responsible business operations
105	Carbon footprint
108	Purchasing
109	Initiatives in the next 12 months
112	Accountability
113	About this CSR report
115	Information collection
116	Applied guidelines and benchmarks
117	Definitions
119	Assurance statement

You will find the GRI table in the appendix.

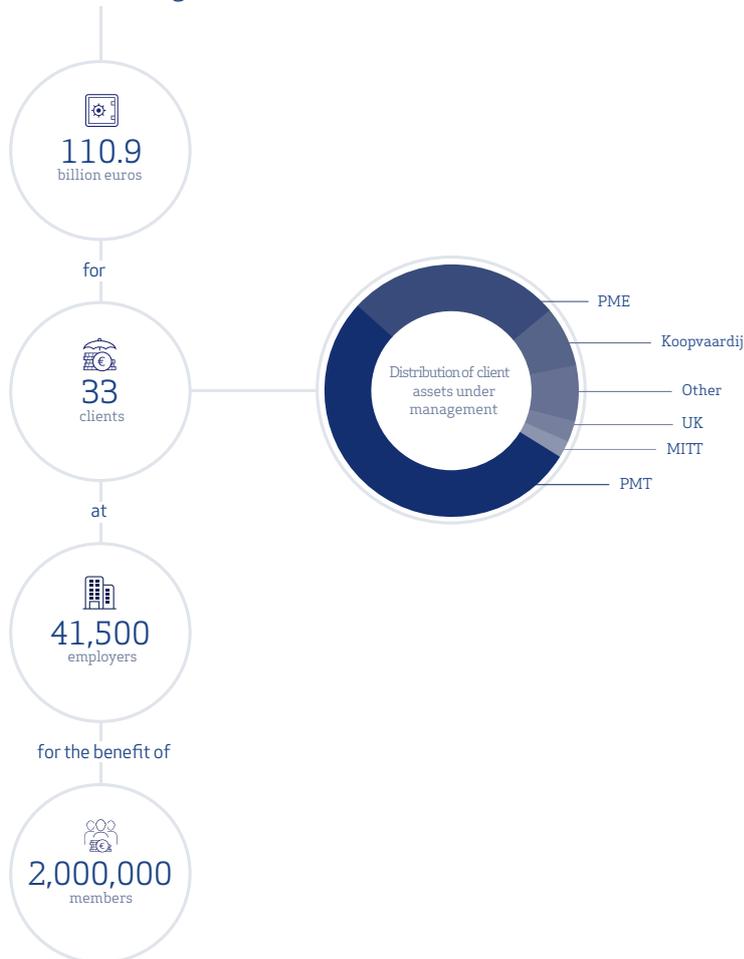
Should there be any differences between the Dutch and English versions, the original Dutch version of these Financial Statements will prevail



MN Profile

Key figures

In 2014, we managed



Key figures

Item	2014	2013
Total operating income	207.4 mln euros	204.5 mln euros
Total operating expenses	204.5 mln euros	199.5 mln euros
Result before tax	3.7 mln euros	5.9 mln euros
Assets invested	110.9 bn euros	92.2 bn euros
ESG integration	50%	57%
Number of clients	33	31
Number of staff ¹	1,207	1,165
Absenteeism	3.8%	3.2%
Training investments per FTE	2,435 euro	2,147 euro
Staff satisfaction	7.2	7.5
Carbon footprint caused by business operations	2,850 tonnes CO ₂ equivalents	3,157 tonnes CO ₂ equivalents

All key figures are as at 31 December 2014

¹ In FTEs and exclusive of incapacity benefit recipients and staff at the London office.

MN Profile

MN works to ensure the financial future of almost two million people. We do so by implementing pension and social schemes and managing insurance for our clients. In addition to performing these tasks, we advise our client regarding pensions and other forms of financial security. We aim for both financial and social return and long-term value creation for our stakeholders. We manage more than 110 billion euros in an efficient manner, with a focus on people and the environment.

For three clients, who are also shareholders, we handle both the pension administration and the asset management. These clients are *Pensioenfond*s *Metaal en Techniek* (PMT) [Metal and Engineering Industry Pension Fund], *Pensioenfond*s *van de Metalektro* (PME) [Metal & Electrical Engineering Industry Pension Fund] and *Bedrijfspensioenfond*s *voor de Koopvaardij* (Bpf Koopvaardij) [Dutch Merchant Navy's Company Pension Fund]. With regard to income protection insurance, our clients include NV schade, UVVS and CBM. Together with our other customers and the members, they are central to everything we do. We want to be leading when it comes to pensions and income protection insurance and that is our daily mission. In our desire to provide quality, we are developing many aspects of our organisation. Innovations range from responsibly and profitably managing assets and helping to develop solutions for an ageing society to technology for our administration. For many people, pensions and income protection insurance are difficult subjects, which is why we try to communicate as simply and clearly as possible. And we explain complicated subjects as often as is required. We are very much involved with our customers and go that little bit further in order to help them. And in the end, that's what it's all about: offering people a pension and an income protection insurance that is sound, easy to understand and affordable.

Mission & Vision

'We bring about the viable financial future that people deserve'

Our services, products and activities are geared to establishing and maintaining a viable financial position for individuals. By contributing to achieving this viable financial position for people, we provide them with vital building blocks for a sustainable and healthy future

'That people deserve'

The products we supply are based on contributions and premiums that pension scheme members pay while working. By implementing work-related pension schemes, social schemes and managing insurance for collective agreement parties, we bear joint social responsibility with social partners, pension funds and insurers. Together with these parties, we implement these schemes in a cost-effective, transparent and honest manner.

Our mission can be translated into a vision, which serves as a long-term goal for MN:

'The number one service provider for collective income protection and pension solutions.'

MN stands for the excellent implementation and performance of fiduciary management, asset management, pension administration, social schemes and other related income support provisions at acceptable costs. In the sectors in which we are active, we are considered the preferred supplier for a wide range of services with regard to collective schemes.

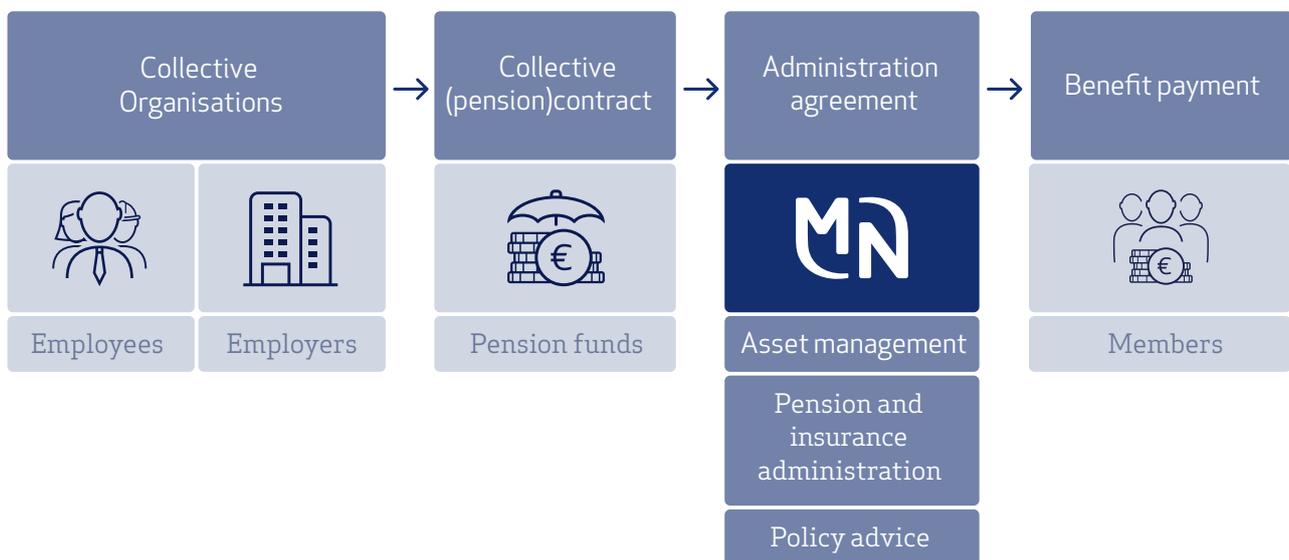
Position in the value chain

In the value chain of collecting contributions and premiums for pensions and insurance, obtaining yield from entrusted assets, managing entitlements and paying out income and pension benefits, MN has a pivotal function. You will find this value chain on the following page. MN is a company of and for social partners (trade unions and employers' organisations) and pension funds. The social partners conclude collective agreements (CAs) with arrangements relating to pensions and income protection insurance. These arrangements are worked out in pension schemes and policy conditions that state that pension funds and sectoral

insurers are responsible for the implementation. The pension funds and insurers outsource most of the actual administration to MN. This outsourcing is formalised in contracts and Service Level Agreements (SLAs) that MN concludes with its clients (pension funds and insurers). These are binding agreements under which MN implements its tasks. On the basis of these agreements, MN collects contributions, manages the assets and ensures the viable financial future of the members. In doing so, MN facilitates the clients in controlling the administration by MN.

In this chain, it is MN's task to add as much value as possible. By cooperating with chain partners, MN aims for scale advantages, knowledge sharing and cost control for the benefit of the collective comprising employees, employers and members. In doing so, MN depends on external factors, such as the financial market in which MN invests the assets. Moreover, MN is closely involved with the government, which is decisive for the pension administration in terms of legislation and supervision by regulators such as the Dutch Central Bank.

Value Chain



Business model and core activities

Core activities

To create value in this chain, MN performs four core tasks.

Administration of pensions and income protection insurance

We handle the entire pension administration for a significant number of our clients. In other words, we collect contributions, monitor the pension entitlements of almost two million members and pay out pension benefits. We also manage income protection insurance for various insurers. We handle the entire process from quotes, via acceptance of members and policy administration, to calculating and paying out damage claims.

Advice

We also use our knowledge and experience to provide our clients, such as pension funds and social partners, with sound and customised advice about the current and future situation. We offer investment advice, perform assessments and identify relevant developments in national and European legislation and social circumstances. Moreover, we support our clients when it comes to actuarial, legal, ICT and organisational matters.

Asset management

We manage the assets of our clients, focusing on two activities: fiduciary management and socially responsible investment.

MN has been involved in fiduciary management right from the start and we are one of the parties that has developed this concept to the full. We advise and support clients throughout the entire asset management process. This integral approach ensures an optimal coordination of all asset management activities, from policy advice to portfolio and risk management through to reporting. This is very reassuring for clients, particularly at a time when increasingly higher demands are being imposed on pension fund boards.

Clients and MN are aware that a responsible investment policy contributes to a sustainable society and consequently to a sustainable and viable future for people. That is why MN is a signatory to the United Nations Principles for Responsible Investment (PRI). On that basis, MN has defined ten guiding principles for responsible asset management. As part of its fiduciary role, MN ensures that these principles are applied to the instructions of our clients.

Communication

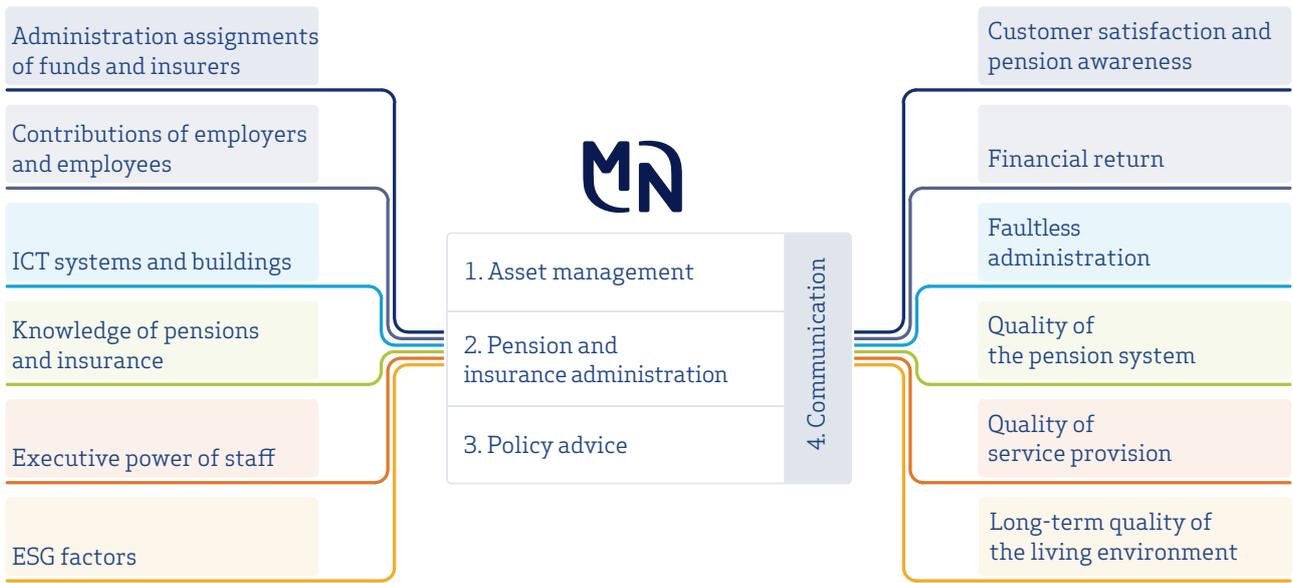
Complex matters like pensions or insurance demand clear communication, which we provide on behalf of and in collaboration with our clients for their members and employers. We believe it's important to increase members' awareness of their pension or insurance. We are increasingly using online communication to provide members with an up-to-date insight into their personal situation.

Business model

The MN business model is geared to creating value in the short and long term. This involves not only financial value (bringing about the viable future that people deserve), non-financial factors are also important (quality of the living environment and social values). To clarify the relationship between the financial and non-financial values and to provide an understanding of the input MN requires in order to achieve the desired output, MN uses the Integrated Reporting (IIRC) framework. This framework distinguishes six capitals: social and stakeholder capital, intellectual capital, financial capital, human capital, physical capital and natural capital.

MN uses as input its social relationships to draw up implementation agreements for collecting contributions (input of financial capital). Using the input of IT systems and processes, the intellectual capital and the executive power of the MN staff, MN focuses on a faultless implementation. MN's intellectual capital ensures the policy advice to clients and other social relationships, geared to a solid pension system both now and in the future. For a sustainable and viable future for members, the quality of the living environment is essential. Consequently, when managing the assets, MN exercises influence on behalf of its clients by focusing not only on financial return, but also on social and ecological return. MN and its clients achieve this output by investing in a socially responsible manner. When bringing about "the viable future that people deserve", we can express the results of our efforts in the same six categories of capital. We aim to increase the value for society by ensuring customer satisfaction and improving pension awareness, we achieve financial return, we improve the ICT to support digital service provision, we increase the quality of staff and contribute to the quality of the future living environment.

This report provides an account of how MN converts the input of non-financial capital in its business operations into added value. For information about the financial return, we refer to the Financial Statements.



Value sources

- Social relationships
- Financial capital
- Physical capital
- Intellectual capital
- Human capital
- Natural capital

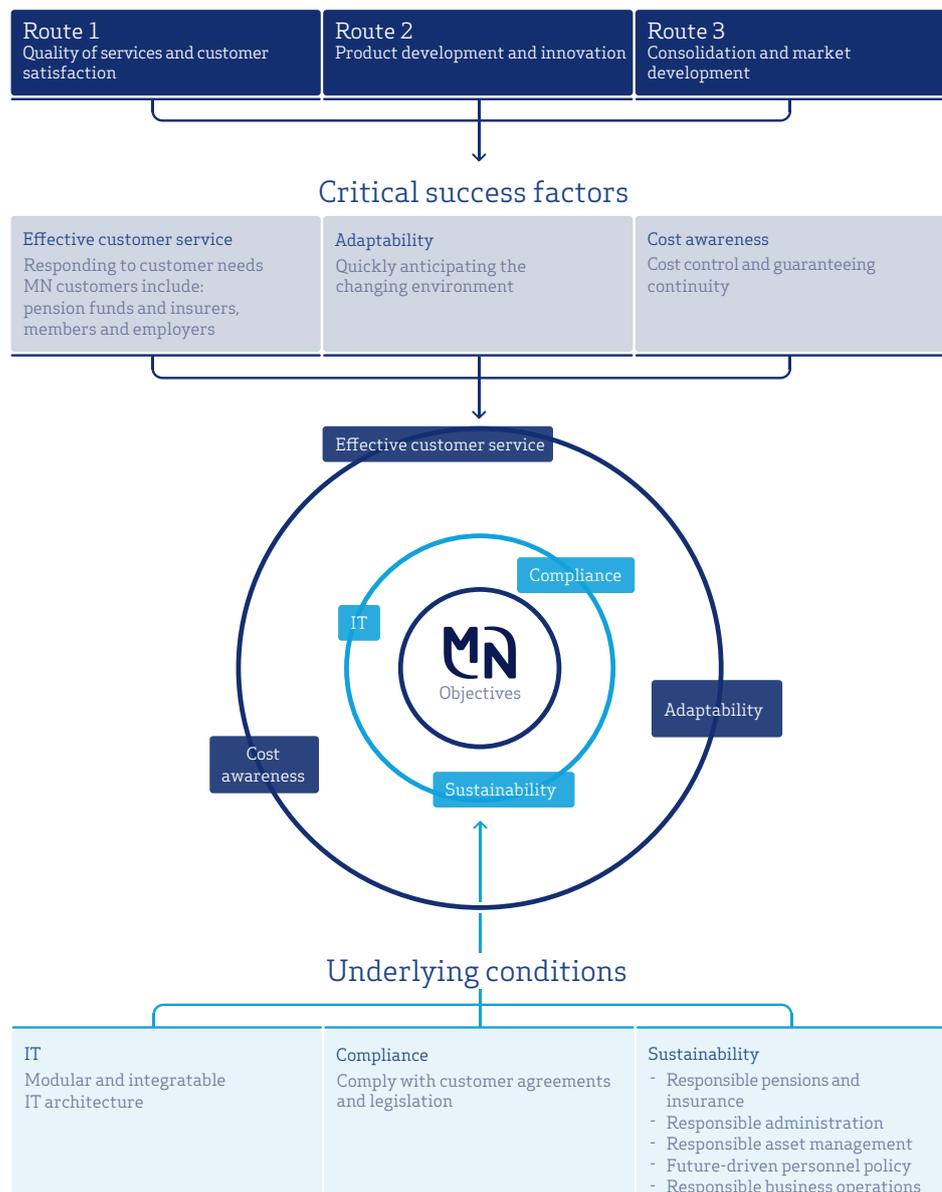
Strategy

MN's strategy to achieve its mission and vision is effected via three routes:

1. continuing to improve the quality of services and customer satisfaction;
2. product development and innovation;
3. consolidation and market development.

These routes are followed simultaneously and substantiated by various actions, improvements and projects. The success of all these activities and all standard processes is measured on the basis of three critical success factors: effective customer service, adaptability and cost awareness. Three strict underlying conditions also apply: IT, compliance and sustainability. This report details how the underlying condition 'sustainability' is substantiated by MN.

Routes 2015 - 2017



To complete the three routes successfully, MN has launched a change programme to make MN more customer-driven, efficient and effective. MN is using this MN3.0 programme to respond to current and future developments in the pension sector and changing customer requirements. MN3.0 focuses on MN's structure, systems and culture, which will be adjusted in relation to one another. As a result of this scope, MN3.0 will affect all MN staff (see also the 'Future-driven Personnel Policy' section).

From underlying condition 'sustainability' to five CSR pillars

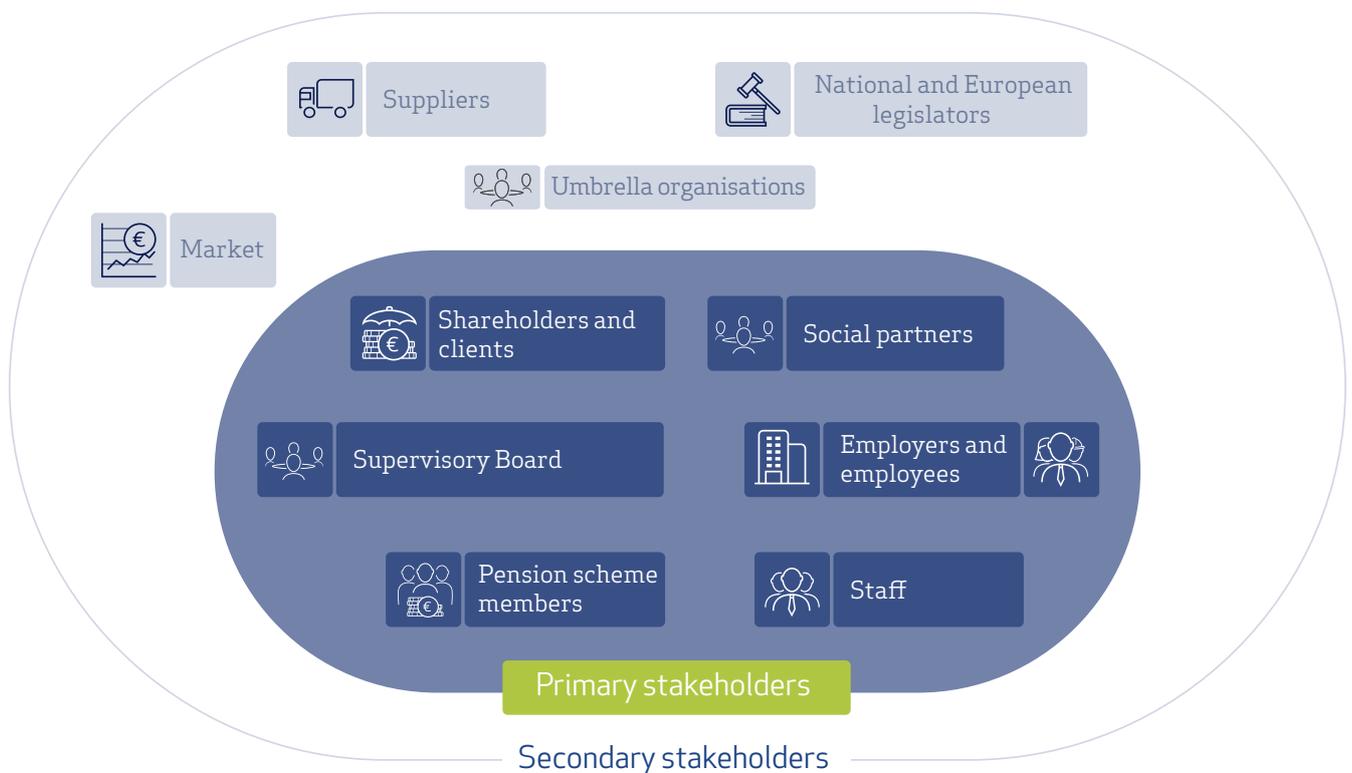
Sustainability is an important underlying condition in the implementation of our strategy. We explain the term 'sustainability' by means of five pillars that make up our CSR policy:

- **Responsible pensions and insurance:** together with our clients, we work to achieve pension and insurance solutions that contribute to a viable financial future.
- **Responsible performance:** when performing our services, we are cost-effective, transparent and aim for a high quality that is evident to members, employers and clients.
- **Responsible asset management:** in our asset management for clients, we take account of the economic, social and governance (ESG) factors in the UN PRI guidelines, which are endorsed by us.
- **Future-driven personnel policy:** people are at the heart of our organisation. They enable us to achieve a high level of customer satisfaction. By pursuing a targeted policy with regard to recruitment and selection, development, vitality and diversity, we focus on the right competences and skills and the sustainable employability of our staff.
- **Responsible business operations:** we minimise our ecological footprint. We continue to challenge our suppliers and business partners to join us in searching for feasible, innovative policies to reduce the footprint even further.

As an organisation of and for social partners, MN engages with stakeholders. We have been reporting regularly on this dialogue since the publication of our first CSR report (2010).

Stakeholder identification

We have identified our primary stakeholders who have a major influence on and a direct interest in MN: our four largest clients, the Supervisory Board, employers, members and the staff of MN (works council). Furthermore, there are important secondary stakeholders with whom we consult in the interests of our service provision: social partners, umbrella organisations in the pension and insurance sector, national and European authorities and government organisations (legislators) and our suppliers.



Interaction with stakeholders in 2014

We consult with our stakeholders regarding the quality of our services in regular meetings and on an occasional basis. We are always motivated by our aim to make our members' pensions more sustainable. That aim is often an implicit topic in meetings with stakeholders, but occasionally it is also an explicit item on the agenda. That was the case, for instance, in the debate about the new Financial Assessment Framework or the new pension scheme for clients. The most important subjects discussed in 2014 in the dialogue with our stakeholders are presented in the following table.

Stakeholder	Dialogue
Shareholders and clients	In 2014, the consultation process with our shareholders and clients concerning the governance and MN's future strategy was completed. Close consultations were held with clients regarding the reduction of pensions, the structure of a new pension scheme for PMT and PME to be introduced as of 1 January 2015, and cost transparency.
Pension fund boards and social partners	MN has facilitated pension fund boards and social partners in structuring their first sector administration agreement: an agreement laying down the relationship between boards and social partners. MN contributed legal, pension and administrative expertise to this process.
Members and employers	Together with the boards of our two largest clients, we carried out a customer satisfaction survey (CSS) among members and employers.
Supervisory Board	Consultations regarding the CSR report.
Staff	CSR staff meeting about CSR policy, the current situation and the material CSR subjects. Survey among staff about making business operations more sustainable.
Market	MN holds discussions about socially responsible investment with external managers engaged by MN for asset management.
Suppliers	MN enters into dialogue with suppliers relating to sustainability.
Pension umbrella organisation	MN participates in various bodies of pension umbrella organisations, such as the Federation of Dutch Pension Funds and contributes expertise for these organisations to determine their positions. For example, the input for the benefit of the consultations by the European regulator for pension funds and insurers (EIOPA) regarding the detailing of the solvency rules for pension funds.
Government	In the debate with the government about the future of pensions, MN's contribution included: <ul style="list-style-type: none"> • a position paper on the review of the Financial Assessment Framework; • contributions to the national pension dialogue; • participation at the inquiry into the Dutch pension system in the Dutch House of Representatives.

In 2014, separate discussions were held with our primary stakeholders about the CSR policy and the corresponding reporting. The most important feedback regarding the CSR report was:

- The 2013 CSR report provides a satisfactory overview of the material CSR subjects. Employees and the works council are surprised by the extent of the CSR theme.
- All parties are critical of the size of the 2013 CSR report and a number of them refer to the overlap with the Financial Statements.
- The Supervisory Board wishes to adopt the report in the future.

The following themes are being put forward as key points for the CSR policy in 2015:

Responsible administration

Reinforcing MN's customer focus.

Socially responsible investment

Deepening the dialogue relating to socially responsible investment (SRI), thinking constructively about possibilities to measure social return and about the communication with members concerning SRI.

Ensuring that homes become more sustainable.

Future-driven personnel policy

Enabling MN staff to deal with the consequences of changes to the pension system and changing customer wishes.

Increasing the number of women in senior positions and offering jobs to partially disabled persons.

Responsible business operations

Reducing paper consumption in the communication with customers.

In addition to these substantive suggestions, our stakeholders argued that there should be a further broadening and deepening of the dialogue in 2015 with internal stakeholders and that a broad dialogue concerning CSR should be organised between pension boards and members.

Material subjects

On the basis of the dialogue with stakeholders and the corporate strategy, MN has identified and prioritised the material subjects. A subject is given priority if it is of major importance to stakeholders and for implementing MN's strategy. To present this clearly, a materiality matrix has been created.

Materiality matrix



The material subjects are reflected in the five CSR pillars. In this report, we account for the policy and results of the most material subjects. The following table acts as a guide to this report.

Material subjects	Link to the five CSR pillars	Link to this CSR report
Confidence in MN	Responsible pensions and insurance and responsible administration	Compliance and risk management, responsible pensions and administration, responsible insurance and administration
Quality of service provision	Responsible administration	Responsible pensions and administration, responsible insurance and administration
Customer satisfaction	Responsible pensions and insurance and responsible administration	Quality of the service provision: satisfaction of clients, members and employers
Responsible investment	Socially responsible investment	Responsible asset management
Cost efficiency	Responsible administration	Responsible pensions and administration: cost control, restructuring of the insurance administration, external asset managers' remuneration policy.
Quality of staff	Future-driven personnel policy	Future-driven personnel policy: development and training
Staff satisfaction	Future-driven personnel policy	Future-driven personnel policy: staff satisfaction
Diversity	Future-driven personnel policy	Future-driven personnel policy: diversity and equal opportunities
Sustainable employability	Future-driven personnel policy	Future-driven personnel policy: transformation.
Sustainable business operations	Responsible business operations	Responsible business operations
Sustainable purchasing	Responsible business operations	Responsible business operations

Our CSR objectives

MN has developed the five CSR pillars into strategic objectives and key performance indicators. These are summarised in the following table, together with an indication of the actual performance in 2014 and the KPI performance levels aimed for by MN in the period 2015 to 2017. For each CSR pillar, this report deals in greater detail with the measures on which this performance is based.

CSR pillar			CSR strategic objective	KPI	2014 target	2014 result	2015-2017 target
Responsible pensions & insurance	MN provides a framework for its mission to bring about the viable financial future that people deserve by ensuring the accumulation and maintenance of a healthy financial position for its participants by means of transparent, honest, client-oriented and sustainable products.	1	Suitable advice	Number of recommendations accepted	80%	93%	80%
		2	Customer-Oriented Insurance Quality Mark (KKV)	Process structured according to quality mark	KKV quality mark for NV schade	Yes	Retain quality mark for NV schade
Responsible administration	MN contributes to a sustainable and future-proof pension system by professionally supporting fund administrators and making an active contribution to the public debate.	3	Improving customer satisfaction on the basis of employer and member surveys	Performing annual employee and member CSSs result in a list of improvement points	Achieving improvement points	New system as from 2015	Achieving improvement points
		4	Achieving favourable cost ratios	Average CEM score for all customers (compared with peer group)	<Peers (peers in 2013 achieved 91 euros)	2013 financial year PMT 85 euros PME 95 euros	<Peers
		5	Reliable and predicatable pension administration	Achieving SLAs (critical SLAs 100%)	≥95%	94.9%	≥95%
Responsible asset management	In our asset management for clients, we take account of the economic, social and governance (ESG) factors in the UNPRI guidelines, which are endorsed by us.	6	Sustainable return	ESG integration output: % capacity compared with ESG	70%	50%	2015: 70% 2016: 75%
		7	Being at the top of the annual UNPRI survey	UN PRI MN score/ scoring by MN funds	In top quartile	Yes	In top quartile
		8	Scoring at least a 7.5 for SRI-related issues in the customer satisfaction survey	SRI score in CCS	7.5	7.2	7.5
Future-driven personnel policy	People make up the core of our organisation. By pursuing a targeted policy with regard to recruitment and selection, development, vitality and diversity, we focus on the right competences and skills and the sustainable employability of our staff.	9	Staff vitality	Average absenteeism %	<3	3.8	<3
		10	Satisfied staff	Staff satisfaction survey	Score comparable with peers	7.2	Score comparable with peers
		11	Quality of staff	% training expenditure compared with salary sum	3.5	3.5	3.5
Sustainable business operations	We minimise our environmental footprint. We are continually challenging our suppliers and business partners to join us in searching for feasible, innovative possibilities to reduce the footprint even further.	12	Carbon footprint	Carbon footprint equal to or lower than 2013	Equal to or lower than 2.7	2.4	Equal to or lower than 2.4
		13	Adopting sustainable purchasing criteria per product group and setting up a monitoring system	CSR criteria included in the RFPs	Yes	Yes	Yes

CSR organisation

Within MN, a CSR committee and a CSR working group are responsible for integrating the five CSR pillars into the core processes. The chairmanship of the CSR committee is vested in the MN Executive Board and is held by the Chief Client Officer, who has final responsibility for the CSR performance of MN. The relevant business units and corporate support departments are represented on the CSR committee and in the CSR working group. In 2014, the CSR committee met twice. The CSR working group meets on a weekly basis.

The Executive Board adopted the 2013 CSR report, approved the appointment of a CSR coordinator and guided the work of the CSR working group. The CSR committee's role charter (the description of its assignment) was also discussed to prepare for adoption in 2015 in order to obtain greater clarity regarding the structure, roles and the method of collaboration.

The CSR committee's role charter states that the committee determines the direction of and focus on sustainability, adopts the CSR policy and ensures that the policy is implemented within the organisation. The CSR committee, together with the CSR working group, work to ensure that the MN CSR policy is converted into specific objectives and actions within the MN business units. The CSR working group also draws up the CSR report.



MN and society

MN and society

Since the 2008 financial crisis, companies engaged in financial services have been monitored very closely. Society is demanding transparency in policy, behaviour that contributes to social objectives and a sound remuneration policy, to cite just a few examples. Government regulation has been tightened. MN is aware of its responsibilities. As one of the major asset managers active in the pension world, MN plays a vital role in the lives of many people, which creates obligations. The pension sector will continue to undergo rapid change in the next few years and MN will be changing accordingly.

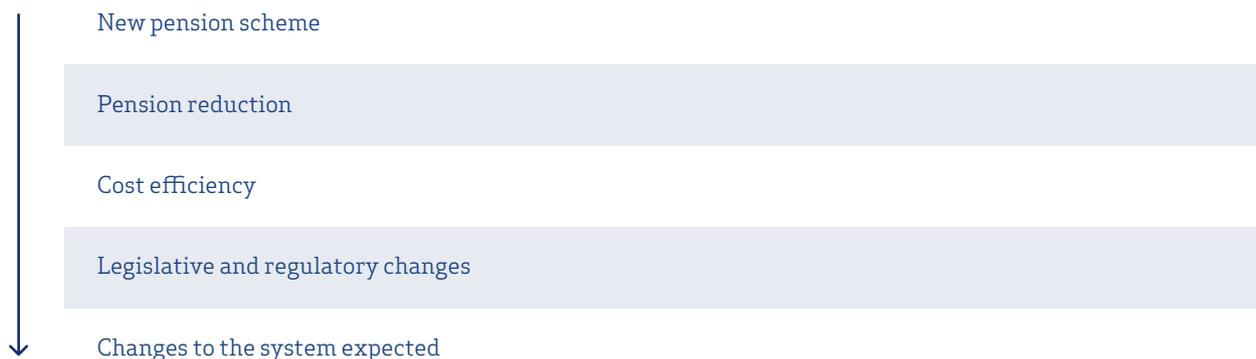
External developments

MN operates in a dynamic environment. In order to monitor and anticipate the influence of this environment on our value chain, external analyses are performed on a regular basis. MN analyses external developments that affect the value chain of MN and its clients. The following overview summarises the most important results of the analysis relating to legislation, the economy and society. The legislative, economic and social categories contain the most important trends, which are then converted into consequences for MN and its stakeholders: the new pension schemes, reductions, new legislation and expected changes to the system.

External developments

Legislation and regulations	Economic	Social
European: major potential impact on pension administration and asset management	Cautious recovery	Increasing individualisation
National: adjusted tax framework and revised Financial Assessment Framework	Very low interest rates	Growing number of people that spend at least part of their working lives as self-employed
		Ageing population and increased life expectancy
		Increasing digitisation

Consequences



New pension scheme

In 2014, our two largest clients in the metal and engineering and the metal and electrical engineering industries decided to develop a joint new pension scheme. A coordinated pension scheme boosts labour mobility between the partially overlapping sectors. The coordination was prompted by factors including the new Financial Assessment Framework, which took effect in January, the adjusted tax frameworks and the very low interest rates. The result is a modern collective pension scheme that offers employers and employees many advantages within the limited statutory and fiscal frameworks, such as a defined contribution and a maximum fiscal build-up combined with a low state pension offset. For MN, the new scheme presents an important challenge to our administration. In the 'Responsible pensions and administration' section, we will explain the scheme in further detail and discuss how the administration was prepared and structured.

Pension reduction

Unfortunately, we had to implement a limited pension reduction in 2014 for our two largest clients. Despite the investment returns, the market interest rate, which had continued to fall, meant that the funding ratio fell below the required minimum. One of our clients entered into consultations with the regulator, the Dutch Central Bank, to avoid the reduction. The arguments that implementing the required reduction of 0.4% involved relatively high costs and that the funding ratio at the time of reduction had risen above the required norm again, were not accepted by the Dutch Central Bank. MN was therefore instructed to implement the reductions. The 'Responsible pensions and administration' section describes how this process was carried out by MN.

Cost efficiency

The pension sector is focusing increasingly on the costs of pension administration and asset management. That is hardly surprising, because costs have a huge impact on the final pension. For instance, large sector pension funds incur on average the least administration costs compared with other pension administrators because of the scale advantages and the lack of profit mark-up and marketing costs incurred by most insurers. The clients and – indirectly – MN too are in line with this trend by equalling or scoring better than the costs benchmark. In order to limit or even lower costs further, MN has taken several measures. Focusing on investment costs, introducing a new more restrained remuneration policy, better information provision and budget control are examples of measures that help to reduce costs.

Legislative changes

In 2014, pension legislation was changed drastically and additional legislative amendments will be introduced in 2015. Furthermore, the national pension dialogue concerning the future of the Dutch pension system is taking place. This is expected to result in further changes.

Based on the core tasks of pension administration, policy advice and asset management, MN is able to make a major contribution to the pension dialogue. This is reinforced by MN participating in the Federation of Dutch Pension Funds, sponsoring the Chair in Pension Economics at the University of Amsterdam and by consulting with national and international stakeholders.

MN is actively promoting its interests and those of its clients by, for instance, advising, monitoring social trends, stakeholder management and participating in relevant networks. In 2014, two major dossiers were the legislative proposal relating to the revision of the Financial Assessment Framework (FTK) and the European directive on Institutions for Occupational Retirement Provision (IORP).

Revision of the Financial Assessment Framework (FTK)

Together with its clients, MN explained in a position paper its view on the legislative proposal to revise the Financial Assessment Framework and submitted it to the spokespersons in the Dutch House of Representatives. MN and PMT were subsequently invited to come and explain their view during the Financial Assessment Framework public inquiry in the House of Representatives. MN put forward four points, three of which were accepted by the House of Representatives. For instance, MN's contribution ensured that the administrative burdens will be limited by the possibility of an open system for recovering indexation and reversing reductions. Furthermore, the capital requirements for European AAA government bonds have been lowered. MN also ensured that an important part of the administrative rules was published in connection with the discussion of the legislative proposal, so that the impact of the proposal became clearer. In this way, MN contributed to transparency.

The new Financial Assessment Framework was adopted by the Dutch Senate by the end of 2014 and came into force on 1 January 2015. The new Framework will be evaluated after three years. A transitional arrangement will apply to certain elements and funds will be given more time to comply with the new requirements.

European pension legislation

The European Union is intending to make the cross-border administration of European pension schemes easier and this is in the interests of MN and its clients. In May 2014, with a view to the European elections, MN drew up a pamphlet setting out its view on European pension legislation. We discussed this with various European stakeholders. This pamphlet focuses on amendments to the European IORP (Institutions for Occupational Retirement Provision) Directive. Partly as a result of the role played by MN, the new IORP legislative proposal contains a number of amendments that have favourable consequences for the Dutch pension sector. For instance, the detailed requirements relating to information provision have been replaced by several principle-based provisions. The requirement of appointing a depositary for asset management is now better suited to the Dutch situation and has been brought into line with other European requirements.

In a separate process, the European pension and insurance regulator EIOPA is working on the development of quantitative requirements for pension funds. For this purpose, EIOPA launched a consultation in 2014. In collaboration with the Federation of Dutch Pension Funds, MN is formulating a response to the consultation, which is planned for January 2015.

Future changes to the system

In April 2014, State Secretary Jetta Klijnsma of the Ministry of Social Affairs and Employment submitted a request for advice to the Social and Economic Council of the Netherlands (SER) regarding the structuring of the second pillar of the Dutch pension system. The submission of this request for advice gave the green light for a fundamental debate about the structure of the second pillar. Is the current structure adequate? Does it meet the expectations and wishes of members and citizens? And is this structure future-proof?

The request for advice of State Secretary Jetta Klijnsma focused on three elements:

- Collectivity, freedom of choice and a customised approach.
- Solidarity: risk sharing and redistribution.
- Capital accumulation for pension, care and own home.

Since then, these elements have been the subject of much debate. Two aspects stand out. The first is the critical attitude of many people and organisations with respect to the current second pillar arrangements and mandatory pension funds in particular. The second aspect relates to the demographic, labour market and socio-cultural developments since the introduction of the system. These involve long-term developments such as ageing, a more flexible labour market and individualisation within society.

Both the advice of the Social and Economic Council and the wider social debate have not yet been finalised. Consequently, it is still unclear how the pension system will change in the future. Together with our clients, we are following developments closely and have concluded that changes will eventually be made regarding the average contribution and legislation relating to defined contribution pensions.

Influence of external developments on MN

MN responds to the above developments in the value chain by giving policy advice to clients, by developing responsible pensions and insurance and by pension communication. MN will incorporate the results of the Social and Economic Council's advice regarding care and own homes into its Socially Responsible Investment policy.

MN3.0

MN is also working hard to improve its own internal organisation. A long-term change programme called MN3.0 has been launched with the aim of improving the internal organisation and adapting it to changing requirements. MN is using this programme to respond to current and future developments in the pension sector and changing customer requirements.

The markets are developing rapidly and people want simplicity and transparency. That requires fully functional business operations in order to provide an excellent and rapid service. MN3.0 is a comprehensive programme dealing with the culture and staff of MN. However, the programme also has a major impact on our organisation structure, management and processes. Where possible, working processes are becoming increasingly automated, which has inevitable consequences for our staffing levels. In order to adapt, we must demonstrate ownership and show boldness. That requires effective management, focusing on a joint objective and discipline in achieving that objective. Employees are crucial to the success of the change programme.



"We should count our blessings."

Interview

Roel Beetsma

MN Professor of Pension Economics at the University of Amsterdam

"We should count our blessings. The Dutch pension system is excellent and can easily adapt to the increase in life expectancy and growing labour mobility. However, maintenance has to be carried out of course."

Professor Roel Beetsma of the University of Amsterdam, who is specialised in pension economics, believes that people are too quick to jump to the conclusion that our pension system is unsound. "That is reinforced by the fact that official bodies publicly adopt their own positions regarding the structure of the system and any changes required." That is not to say that no proper consideration should be given to how the system can survive in the future. However, Beetsma does not share the general sense of gloominess. He believes the threats are more likely to come from abroad. There are only a few countries in Europe with a capital-funded system and he fears that such countries, which include the Netherlands and the UK, are not being sufficiently listened to in the international debate. Furthermore, the crisis in the eurozone has raised the question of whether Southern European countries will be able to repay their debts. That uncertainty is having a negative impact on the investment portfolios of the funds.

With regard to important external factors, Beetsma considers the high tax burden in Europe to be a particular problem. This means that economic growth is lagging behind. Something must be done to alleviate the problem. "The level of government spending determines the return on the efforts to turn the tide. In the Netherlands, government spending cuts involved

mainly tax increases, whereas it would have been better from an economic point of view to tackle government spending.”

Demographic developments are less susceptible to policy. Population ageing will continue and will reach its highest point in about twenty years’ time, and it will persist because the number of births is structurally lower than in the past and life expectancy continues to increase. The ageing factor is being compensated to some extent by the increase in the retirement age. Furthermore, older employees will work more hours. “The labour participation rate for those aged 60 and above has already risen sharply. That is now considered to be normal and the vitality of older people has increased strongly. However, employers will have to do more to sustain the employability of older staff.”

In some cases, older people are now returning to the labour market as cheap staff following their retirement. They have fewer financial burdens and can survive on lower income. Furthermore, a number of premiums no longer need to be withheld for them. Not everyone is able and willing to carry on working, so that Beetsma believes that there will be a greater spread in the age at which people retire.

As regards the Dutch pension sector, he expects the number of pension funds to fall. The higher demands being imposed on regulation and the increase in the required expertise will result in consolidation. The number of corporate pension funds will also decrease. The growing calls for flexibility and individual solutions will lead to the landscape becoming more diverse with more variation in the types of pensions. The investment policy will become more age-related and pensioners will have a greater influence on investment policy. On the other hand, they will need to be enabled. “Practice has shown that people know little about pensions and that they hardly take the trouble to plan.” By which he means that “if mandatory participation is restricted (under political pressure), large groups of employees will run the risk of not saving sufficiently for their pension. In that respect, the situation in the UK speaks volumes.” But we haven’t got to that stage yet. However, there is increasing pressure to change basic aspects of our system. One of those aspects is what is referred to as the ‘average contribution system’. The consequences of any adjustment must not be taken too lightly. If pension contributions increase with age, older employees will not be attractive for the labour market, or they will end up with too little on a net basis. If the build-up declines, but the pension of current older employees has to be sustained, the government will have to assume part of the liabilities of the pension funds. The transition will always remain expensive.



Responsible pensions and administration

Responsible pensions and administration

We bring about the viable financial future that people deserve. That is MN's mission. We are always aiming for high quality at acceptable costs. On the basis of this mission and vision, we work hard to improve the service provision to our clients and to apply our expertise to advise them. In the past year, MN and its clients have had to make many choices: Do we or do we not reduce the pensions? How do we structure the new scheme and how can we arrive at a single pension scheme for the metal industry funds? But also: How can we communicate this clearly to members? Last year was characterised by the reduction of pensions, the new pension scheme, the reorganisation of administrative systems and the improvement of data management.

Implementing pension reductions

Just as in 2013, the pensions of the members of our two largest clients were reduced in 2014. Needless to say, this was a bitter disappointment to the approximately 1.9 million members. In contrast to the 2013 reduction, the funding ratios of both funds were close to the required limit, which meant that it was unclear right up until the last minute whether or not the reduction would have to be implemented. The pension entitlements of the members were reduced on average by 0.45% as of 1 April 2014. This was implemented with retroactive force as of 31 December 2013. To ensure that the reduction was implemented as smoothly as possible, joint periodic consultations were established with the clients to inform them about progress and to advise them on the choices to be made and the communication relating to the reduction. In addition to sending more than 1.9 million reduction notifications, the payment overviews (UKOs) and the pension overviews (UPOs) were supplemented with information about the reduction. In the period from February to 1 July 2014, more than 3.1 million items of post were sent. To be able to answer approximately 7,000 extra telephone calls with questions from members and employers about the reduction, the customer information teams were supplemented temporarily and an external call centre was engaged.

Looking back, we can conclude that as a result of the satisfactory preparations and efforts of all those involved, this complex operation was performed successfully.

Policy advice regarding the structure of pension schemes

The structure of the pensions that we administer is the responsibility of the social partners in the sector in question. The recently tightened statutory and fiscal frameworks offer limited scope for the social partners to substantiate this structure.

MN supports its clients and social partners in arriving at practical solutions for pension schemes within these frameworks. We measure the quality of our targeted advice to clients against the number of actuarial and policy-related recommendations that are accepted by our clients. In 2014, 94% of the advice offered was accepted. The intended norm for 2014 was at least 80%.

Starting points for the structure of the new pension scheme

In the past few years, MN and its two largest clients, the PMT and PME pension funds, have worked together to develop a single new pension scheme for the engineering industry. For this purpose, MN participated in various working groups with social partners and clients. In 2014, this resulted in a draft agreement on a single joint pension scheme for more than 540,000 current employees at more than 34,000 companies within the metal and engineering industry. A single pension scheme for both engineering sectors has several advantages. For instance, labour mobility between the metal and engineering and the metal and electrical engineering sectors is made easier because there is no longer a loss of pension rights. Moreover, a single joint scheme helps to reduce administration costs.

The most important characteristics of the new pension scheme for the engineering industry are:

- *Adjustment with regard to age, build-up and state pension offset*

The new pension scheme is in line with the amended legislation and has been converted for members to take account of retirement at 67. Needless to say, the built-up value remains the same and members retain the possibility to take early retirement by opting for a lower benefit than would have been the case at 67.

The maximum fiscal pension build-up has been reduced by the legislator to 1.875 % of the pensionable earnings per year as of 1 January 2015. Our clients used to have a build-up of 1.9%. This is lowered in the new scheme to 1.875%, which means that the maximum limit applies.

As all Dutch residents receive state pension from retirement age, no supplementary pension is built up on part of the salary. This part of the salary is referred to as the state pension offset. In the new scheme, the state pension offset has been reduced by € 1,000, so that members will build up pension on a larger part of the salary. This will have a relatively large positive effect on the pension build-up for those on lower incomes in particular. In the next few years, the state pension offset will fall even further.

- *Defined contributions*

The contributions have been fixed for the next five years, so that any shortfalls cannot be compensated by a rise in contributions. Any surpluses will only benefit the contribution-paying members for the period in question. For the new scheme of both funds and of Bpf Koopvaardij, MN has performed an implementation assessment to determine in advance whether the new scheme will be feasible from an administrative and communicative point of view. On the basis of the findings, MN made preparations from 2013 in coordination with its clients. In 2014, adjustments were made to systems and processes to ensure a more flexible response to future changes to the pension system.

Cost control

MN aims for high-quality service at an acceptable price. One of the ways of gaining an insight into how MN performs with regard to cost control is the CEM benchmark, in which our clients participate. This annual benchmark provides an insight into the cost and service level of our clients. The CEM benchmark compares our clients with other similar pension funds. In addition to insight into the current cost and service level, points for improvements are also revealed. During consultations with our clients regarding the service provision, possible improvements are discussed with a view to raising the standard of services and controlling costs. Our clients belong to the top of the benchmark and that's the way we want it to stay. For instance, the costs per member (2013 financial year) at PMT and PME are € 85 and € 95, respectively, compared with a peer group average of € 91. The costs per member (2013) at Koopvaardij amount to € 145, compared with a peer group average of € 154. The peer group in the CEM benchmark has shown an upward cost trend in the past year. At PMT and PME, the reasons for this trend included the extra costs incurred for implementing the pension reduction.

By continually monitoring the service provision, we wish to work with our clients on further improving the service to members and employers and controlling the implementation costs.



“Have we done everything we could have done to inform people?”

Interview

Henk van de Graaf

Chairman of the PMT
Accountability Body

Henk van de Graaf, Chairman of the PMT Accountability Body, takes a long-term view regarding the social role played by the pension sector. “After all, you must be able to pay pensions in the long term too. That’s a primary consideration.”

The PMT Accountability Body consists of representatives of the employees, employers and pensioners. It discusses past and future policy with the fund board eight times a year. Van de Graaf, who works in the energy sector, progressed from his activities for the tax service of the FNV trade union confederation to his current role within the Accountability Body.

‘Social return’ is the term he often uses when the CSR policy and the fund investments are being discussed. “You simply don’t invest in cluster bombs. That much is clear. But what about infrastructure. The added value and relevance for society are obvious. The collectivity will benefit. “It’s all about image,” says Van de Graaf. Regretfully, he has to admit that the image of pensions is often determined by a few negative aspects. “And those aspects tend to dominate where image forming is concerned. We should be proud of the positive aspects and we should highlight them. But you have to overcome the image, particularly where pensions are concerned. You have to fight back by communicating effectively and smartly.” He cites as an example the knowledge of young people regarding pensions. They think that the large pension pot full of money will be empty by the time they want

to use it. They feel that there's something wrong, because older people are now claiming everything. "The truth is different, but convincing them of that appears to be very difficult. They have an image in their minds and that's not easy to change."

When it comes to MN, Van de Graaf expects a bit of down-to-earth common sense, a sense of reality and behaviour befitting a respected company.

As regards the communication with members, he sees room for improvement. "The risk profile for members changes during a transition from a defined benefit system to a defined contribution system. Members are entitled to know what that means. The funds should anticipate such situations. You always have to ask yourself: have we done everything we could have done to inform people? Could we have done it differently and better?"

He believes that the funds and the administrator have the task of explaining what is going on in transparent and clear language. Things may turn out differently to what you intended and that's when you have to give account. Even if you're not obliged to do so."

Quality of the service provision

In 2014, a great deal of effort was devoted to improving data quality and data management has been streamlined throughout the organisation. Data management ensures the proactive and systematic detection, solution and monitoring of possible data errors so that the quality of the service provision continues to improve. The quality of the administration is also continually assessed by means of data and plausibility checks. If errors are detected, these are rectified in order to arrive at a situation in which errors are prevented as far as possible.

To inform our clients more effectively about the quality of our services, new service agreements have been concluded with them. This is a follow-up to the 2013 Uniform Services Catalogue, which describes the services available to our clients. Reports relating to service arrangements deal not only with the usual quantitative aspects, but also provide more insight into the qualitative aspects. This allows us to be more transparent and to supply more details about the implementation. The service results are measured on a monthly basis and the outcome is shared with the clients. In 2014, the targets were achieved in an average of 95% of cases. Achieving the target of 95% was made difficult throughout the year due to the reduction that took place in early 2014. Various service agreements were impacted by higher pressure on, for instance, the call centre. Moreover, various processes were disrupted because the reduction had to be implemented in the system. Consequently, the processing of changes was delayed in some cases.

We also offer our clients a glimpse into our processes by simulating events in which a member may be involved. What happens when a member retires or dies? What processes must be followed and what information does the member receive? These processes are assessed in line with the standards framework of the regulator (the Dutch Central Bank). During these assessments, improvement initiatives are adopted and implemented where possible. All this is reported and documented.

Satisfaction of clients, members and employers

MN clients are satisfied if their customers are satisfied. This year, the satisfaction of employers, members and pensioners was measured by an external agency under the direction of the administrative offices.

In 2014, the results of our customer satisfaction surveys became available. The surveys were carried out at our clients in late 2013. The results were discussed in meetings with individuals and groups and the differences between the expected service and the service experienced were clarified. These discussions resulted in points for improvement that focus, for instance, on shaping a strategic partnership.

In late 2013, our clients investigated the satisfaction of members, pensioners and employers. This provides an indication of the quality of our performance. Our clients shared the results over the first six months of 2014 with MN. The responses from the members, pensioners and employers investigation were specific, critical and open and therefore very helpful to us when taking customer-specific improvement initiatives.

For instance, communication and information provision has been improved. Furthermore, initiatives have been taken to improve the new portals and to introduce further automation. Employers have expressed a preference for monthly invoicing to ensure a better spread of cash flows and to increase administrative ease. MN will be the first pension administrator in the Netherlands to introduce the uniform pension return (UPR) in 2015 to ensure a more reliable and timely submission of data. This means that the required data are obtained directly from the source, the payroll records, and are identical to the data received by the tax authorities.

In the final quarter of 2014, our clients again carried out satisfaction surveys among employers and members. The results of these surveys are expected in 2015.

Pension communication

MN handles on behalf of its clients all communications to employers and members who are affiliated to the pension fund. The starting point is that pension communication must be transparent, honest and clear. MN and the client lay down the pension communication requirements, such as the choice of the means of communication, in Service Level Agreements (SLAs). The processes and systems of MN generate the information that a member or employer needs. The quality of MN staff is decisive to a large extent for the clarity, and therefore the effectiveness, of the communication. In the period ahead, the structure of the pension communication will change as a result of the new Pension Communication Act [*Wet pensioencommunicatie*]. The act is intended to provide a personal total pension overview, more insight into uncertainties, a more customised approach and more possibilities for online information provision. MN is holding comprehensive and detailed consultations regarding this matter with the funds.

Pension insight and awareness

MN's mission is to bring about the viable financial future that people deserve. But what is that financial future? That insight is important for a member. In the past, members just received a Uniform Pension Overview (UPO) on paper once a year. However, there are now more possibilities for members and pensioners to view their personal situation online. For that purpose, MN has invested in recent years in the development of Online Dialogue and Self-Service. This means that members can log in whenever they wish to view their personal situation. The pension planner has been adjusted to the new pension scheme and retirement date. The design and user friendliness of member portals has been improved. Members can, for instance, initiate an application for retirement or request an individual pension transfer if they have recently moved to another employer. The number of functionalities will be extended in 2015. In 2014, a communication campaign about the changes to the pension schemes as of 1 January 2015 was started on client websites. Members are introduced to the new pension scheme by means of questions and answers.

Using an improved statistics module, we can monitor the use of the portal by members. Having a better understanding of user behaviour provides a basis for further improvements to the portal in the interests of specific groups of members. Needless to say, 2014 was also devoted to adjusting the member portal to the new pension scheme that came into force in 2015.

On the instructions of the European Commission, MN is working with five other domestic and international pension administrators to assess the structure and feasibility of a European pension tracer system. This system must enable Europeans to keep track of pension entitlements built up in various European countries in a transparent and accessible manner. In March 2015, the advice regarding the structure and feasibility will be presented to the European Commission. As a result of this initiative, MN is contributing to achieving the aims of the European Commission to increase the sustainability of pensions and to curb pension-related poverty within Europe.



"They are not always the easiest of calls."

Interview

Catharina van der Linden

Customer Information
employee

"It is just as important to hear the hidden messages; those that are implied rather than said." Catharina van der Linden speaks from experience. As a staff member of the Customer Information department, she supplies pension scheme members with telephone information on a daily basis. As an experienced employee, she also coaches her colleagues.

"They are not always the easiest of calls. After all, you do not want to hear from your pension fund that your pension is being reduced or not being indexed. It is our task to calmly and politely explain why that decision has been taken," says Catharina. "We cannot reverse the decision, but we can explain the reasons transparently, honestly and clearly. It goes without saying that we understand their emotions. It is important for members to know that they are being listened to and that we take their comments seriously."

When the pensions had to be reduced last year, there was a peak in the number of calls. The increase in the retirement age also prompted many questions from members. "During the calls about the higher retirement age, we could explain the measure and simultaneously provide greater insight into the options offered by the pension scheme. We explained that they had more control over their own situation. They were pleased to hear that because they had little idea of what the possibilities were."

MN spends a great deal of time and effort on training the telephone staff properly. They are to a large extent our calling card. Moreover, pensions are not, of course, the core business of the average member. That is not their profession. And even though pensions are currently more of a news item due to the many changes, knowledge of pensions is still limited. "Pensions only really become an issue when retirement is approaching. I am pleased when I succeed in explaining it in such a way that they understand it."

Sometimes the calls are emotional. Someone who is out of work and no longer building up pension and is faced by a drop in income, is not always calm and friendly on the phone. "The trick is to stay calm, show understanding and particularly to point out the possibilities that still exist. That helps a lot. Occasionally people need to blow off steam," Catharina explains. It is important for telephone staff to switch off on time and to leave the worries at the office.

MN is encouraging pension scheme members to use the online contact possibilities as much as possible. The new social media are playing more and more of a role in the communication between the funds and the members. However, personal contact will always remain important. Let's not forget that pension schemes also involve emotional issues such as divorce or the death of loved ones, and that's when the human aspect has to be taken into account. "In such cases you have to be very alert. You don't ask for registration numbers or other impersonal matters. You make it personal, you offer surviving dependants your condolences and ask for their understanding when you nevertheless have to ask for sterile factual data in order to arrange matters correctly. It's all about finding the right balance," says Catharina.



Responsible insurance administration

Responsible insurance administration

MN is a renowned pension administration organisation and institutional asset manager. We are, however, less well known as an insurance administrator for various clients in the metal industry. The policies in question relate to supplementary income protection insurance for occupational disability risks. On behalf of its clients, MN handles the insurance administration, provides policy advice and deals with communication and complaints.

In 2014, the insurance activities were placed in an independent business unit, which meant that we could bring more focus into the core insurance activities. The unit operates on the basis of its own mission: *enabling clients to retain their own identity while reducing the income-related risk for their members.*

This means that the Insurance Unit can act more effectively in offering reliable and proactive support, as well as transparent business operations when it comes to income protection.

The insurance world is changing rapidly. The government is continuing to withdraw from social security arrangements, so that many insurers are offering new products to provide people with the desired security. As part of this social security privatisation, MN wishes to enable sector organisations to offer recognisable and reliable products. The Insurance Unit provides various services to several clients. These clients receive income protection insurance, such as sick pay insurance, supplementary insurance for partial invalidity [WIA-bodemverzekering], WGA benefit shortfall insurance [WGA-hiaatverzekering] and WIA top-up insurance [WIA-excedentverzekering]. In consultation with social partners in the metal industries, possibilities are being explored to address other income-related risks (e.g. unemployment). As a result of the in-house experience, knowledge and skills of the Insurance Unit and MN, we are able to support our clients in the development of these new products and the corresponding service provision.

Responsible insurance

MN offers responsible products and services on behalf of its clients. We ensure that our products are suitable for our clients. They do not exceed and do not fall short of what is required; customers are neither overinsured nor underinsured. We supply our products in proper consultation with social partners in the sector. We communicate clearly and transparently about the products, so that a customer knows exactly what the product entails.

We like to know how customers experience our products, as their opinion is important. We continually measure customer satisfaction for our largest client. Improvement actions are taken on the basis of the results.

This year, this process earned the Insurance Unit the Customer-Oriented Insurance Quality Mark [Keurmerk Klantgericht Verzekeren] for one of our major clients. This is a quality mark based on working and thinking in a customer-driven manner. The standards and the quality of this mark are guaranteed by periodic assessments.

As the quality mark has now been embedded in the work processes, we can earn the quality mark for other clients too.

Furthermore, we held close consultations with all our clients in 2014 to assess their satisfaction regarding MN's performance. The parties involved were interviewed by an external agency and the results were reported to us. In 2015, a different method has been used to indicate customer satisfaction, which is why the 2014 score has been omitted. The 2014 and 2015 scores will not be comparable. The reports made a number of recommendations to improve MN's services to the various clients. One of the most frequent criticisms that emerged from this survey was the lack of flexibility in MN's administrative processes and systems. In 2014, we tackled this problem by launching a comprehensive project that we wish to complete in 2015.

Restructuring of the insurance administration

In 2014, the Insurance Unit became independent, which was an excellent opportunity to give this unit a really new image. We wish to work more efficiently, to supply new products and to meet the expected increasing demand. We wish to continue to develop. We are doing so:

- by restructuring the administrative processes (STP) and constructing a flexible system that facilitates the accelerated administration of existing products and the easy implementation of new products;
- by means of a new organisation structure and by encouraging a new business culture within the unit by focusing on customer-oriented behaviour and coaching for the various competences;
- by putting customers and customer service first;
- by creating scope for innovation.

It is a comprehensive programme being implemented in parallel with MN3.o. The restructuring of the insurance administration is intended, in addition to helping to reduce costs, to bring about a less complicated and clearer means of communication with policyholders and insured parties by means of digitisation. Furthermore, the restructuring supports the Insurance Unit in offering a flexible service that meets current customer demands, it provides a basis for the future and guarantees continuity.

In 2015, the transition to the new insurance system will take place.



“See it from the customer’s point of view”

Interview

Paul Nieland

Board member CBM

Paul Nieland can't repeat it often enough: “See it from the customer’s point of view. Relieve him of his worries, because if he’s on the phone and covered in oil, he is not interested in administrative problems. Everything should be taken care of. He simply wants a solution so he can return to his work as quickly as possible.”

As a board member of CBM, the collaborative venture between insurance company Bovemij and MN, he argues strongly for greater client focus. “We are there for the customer, the Bovag (association of motor car, garage and allied trades) entrepreneur who works hard with his staff at his business. He must be assisted in the right way so that he gets value for money and pays the invoices on time. But do we really know what he wants?”

Not entirely, apparently, because the customer satisfaction survey carried out by MN in 2014 revealed critical comments. Customers and clients want constructive assistance, effective solutions, smooth service and, particularly, no unnecessary administrative bother. According to Nieland, there are still many benefits to be gained if MN were to see things more from the customer’s angle. In other words, the commercial sense needs to develop more to keep customers and clients satisfied.

Corporate social responsibility is the basis for the approach within CBM. This should also be reflected by the actual service provision to the customer.

That means not thinking purely in terms of products, contributions or risks, but rather concentrating on possibilities to keep people in work instead of losing them through an insurance scheme. "Let's examine what an employee or employer with a handicap is still able to do, let's limit the risk of occupational disability, let's look for reintegration possibilities. Let's focus on solutions rather than just paying out compensation. Nieland believes it would help if desk-bound staff were to accompany field staff occasionally and meet the entrepreneurs for whom they perform their work.

"The fact is that we at CBM, together with Bovemij and MN, are in a very strong position. We are partners and a proactive attitude is a must for growth in all respects. Just look at how much information and knowledge we have, just think what we can do for employers and their staff."

He gives another example. "You can't visit a website properly on a mobile telephone. So we have to help entrepreneurs by offering them contact possibilities using a good app, so that we can easily pass on information to allow them to get back to work. Because as I already said, they are not interested in administration."

Nieland is pleased that insurance is now an independent unit within MN. "It is a separate discipline that requires special attention. And it's good to note that as a result, the service level has greatly improved within a short period of time. That independent position is what insurance deserves."



Responsible asset management

Responsible asset management

MN manages more than € 110 billion for its clients. This amount consists of pension contributions and insurance premiums paid by pension scheme members of MN clients. In the chain extending from collecting contributions, managing assets, to paying out pensions and insurance benefits, MN creates added value for clients and members by means of responsible asset management. MN does so by ensuring that the contributed assets yield a financial and social return, geared to achieving the viable future that people deserve.

A satisfactory pension involves more than a proper financial benefit and touches upon the society of the future. Clients wish to ensure that their members can 'enjoy' a satisfactory pension in a high-quality living environment. Clients can influence the living environment by taking the social effects into account in their investment policy, including environmental and social factors and responsible management. In practice, this is referred to as focusing on ESG (environmental, social and governance) factors as part of responsible asset management.

Role of MN in responsible asset management

The responsible asset management policy is determined by the clients. MN offers advice to clients to support them when they take decisions. Moreover, MN implements that policy. For this purpose, the clients conclude agreements with MN. These are used as a basis by MN for detailing the implementation of the responsible asset management. MN's tasks are not confined to investing on behalf of clients, it also selects, instructs, monitors and assesses external managers that implement the asset management for clients. As the final part of the process, MN also helps clients with the communication relating to the investment policy adopted by the customer by means of various types of reports to both the board and the members. It is vital for clients, members and other stakeholders to be given an insight into the results of responsible asset management. This section provides an outline report of those results. More detailed information is available at the MN responsible asset management website.

MN's SRI policy

Since 2009, MN has been a signatory to the UN Principles for Responsible Investment (PRI). MN is therefore a member of a worldwide organisation of more than 1,200 institutional investors, banks and asset managers who have joined forces to develop responsible investment. MN has used the UN principles to define ten guiding principles for responsible asset management. It is MN's policy that all clients should observe these principles and that socially responsible investment (SRI) is part of MN's DNA. This policy has been detailed in specific objectives (see the summary of results and ambitions in the table below).

The PRI performs an annual assessment among its members of progress regarding policy, implementation and results. In connection with this assessment, the PRI evaluates and scores the members. MN wishes to achieve at least 75% of the maximum score. According to the assessment report issued to MN by the PRI in October 2014, it has succeeded.

Implementing the SRI policy of clients

The core of client SRI policy implementation consists of exclusion, ESG integration, active ownership and impact investing. The following paragraphs report on what MN does for its clients.

Exclusion and screening

Clients pursue a policy of excluding countries and companies on the basis of violations of international treaties relating to ESG factors. In some cases, sector pension funds wish to exclude investments in businesses active in their own sector in order to avoid a conflict of interests. Another form of exclusion policy is not investing in certain sectors (such as the tobacco industry). A decision may also be taken to exclude a certain percentage of the most poorly performing businesses (from whatever sector) from the universe. MN developed this approach in 2014 for the developed countries equity portfolio of one client. The 10% of companies in the benchmarks for Europe, North America and Asia that have the worst ESG performance are not eligible for investment. If only the best performing countries of a benchmark are included in the investable universe, positive screening is involved. That is the case, for instance, for the government bond portfolios of MN clients.

In 2014, the annexation of Crimea by Russia resulted in an adjustment to the exclusion policy. MN informed its clients periodically about additional penalties that were imposed on various Russian entities and persons because of the situation in Eastern Ukraine and the shooting down of flight MH17. An inventory was made of existing client portfolios and the investment institutions of MN. Furthermore, the shares referred to by the EU were blocked and measures were introduced to monitor whether the demands were being continuously met. It should be noted that the penalties imposed by the EU do not apply only to Russia. For instance, the EU also imposed penalties on Iran in November. These penalties too were implemented by MN.

MN embeds the exclusion policy in the investment process with the support of external research agencies. MN accounts to its clients on a quarterly basis regarding the exclusion of countries and companies. MN also publishes the exclusion list for the MN pooled funds on its website. At the end of 2014, there were 25 companies and 15 countries on this list.

On the basis of social considerations, a stricter exclusion policy could be introduced. MN has consulted with various clients about the desirability of such a change. The exclusion policy is therefore evaluated regularly.

ESG integration

ESG integration means taking account of ESG criteria when investment decisions are actually taken. If, for instance, an active manager decides to sell a certain share because the risk of involvement in human rights violations is too great, this constitutes ESG integration. MN clients also have many passive equity investments. In the case of these investments, a pre-determined benchmark is followed closely. No individual investment decisions are therefore taken. If a passive mandate uses a benchmark in which ESG criteria are incorporated, this also constitutes ESG integration. After all, the benchmark choice is in this case the investment decision.

Because of the influencing possibilities, clients ask MN to actively focus on ESG performance when developing new investment strategies. In 2014, MN developed a new strategy for one client for developed markets equity. MN also worked for several clients on preparing a new strategy for emerging markets equity. It is also possible to focus on ESG integration by means of the selection criteria for external asset managers chosen by MN for clients. In 2014, the external asset managers participated for the first time in an annual ESG assessment performed by MN.

To calculate the extent to which ESG criteria are integrated in various ways in client investments, MN uses the PRI framework. To be able to measure and report ESG integration accurately, MN worked in 2014 on including SRI data in its investment administration. For instance, the investment administration can be consulted to rapidly reveal which managers are not yet signatories to the PRI or which managers are lagging behind when it comes to a proper exclusion policy. This information ensures that MN can monitor effectively and that the client can be kept informed of progress by means of regular reports. Initial steps were taken in late 2014 to put the structure in place and the project will be delivered in the first quarter of 2015.

In 2014, MN developed the ESG integration in developed markets and emerging markets equity. The mandates approved by clients in 2014 will be implemented in early 2015, which is when the ESG integration will take effect. Despite the new mandates that have been developed, ESG integration fell in percentage terms from 57% to 50%. This was due to changes in the

relationship between underlying asset classes as a result of movements on the financial markets. If these approved and adjusted equity mandates are included, MN will have integrated ESG factors into 61% of the investment policy. MN and its clients are aiming, where possible, for a further increase in ESG integration in the investment process. Full ESG integration is not an aim in itself. MN will always assess which solutions contribute most to responsible asset management.

In 2015, MN will be developing a new method to measure ESG integration. This will involve not only taking account of assets under management, but also, for instance, the depth of ESG integration and the number of external managers that are PRI signatories.

Developed markets equity

For one of its clients, MN has created an adjusted benchmark on the basis of ESG criteria. In this benchmark, the 10% worst performing companies are excluded from investment. The ESG indicator used by MN for this purpose has been put together by MN from various indicators supplied by an external research provider. As a result, MN is able to highlight the sub-topics that it believes have the greatest impact on a business. For instance, MN assigns more weight to governance than in the indicator supplied as a standard feature by the external research provider. This is because MN believes that proper governance is vital for the effective functioning of a business.

Emerging markets equity

In the past year, MN worked on a strategy for emerging markets equity for two clients. Following the proposals of MN, one of the two clients opted to exclude businesses having the worst possible ESG score and being involved in ESG disputes. The other client will decide in early 2015 on the type of ESG integration for emerging markets.



"It's not just
about money."

Interview

Onursal Kilic and
Wouter Reiding

MN fund managers

If you have the choice of investing in about sixty countries and you want to do so responsibly and analyse the risks properly, a lot of investigation is required in advance. That's the daily task of Onursal Kilic and Wouter Reiding at the FI-EMD department of MN. Using various indicators, they establish whether an emerging country meets the ESG standards. This involves visits to the countries, which are made together with representatives of other institutional investors. "On such visits, we meet really influential people," says Onursal, "members of the government, central bank representatives, politicians, think tank staff, representatives of the IMF." This means that any doubts about the standards in a certain country are passed on to the government in question. And bearing in mind that those countries are keen to receive the investments, they are willing to introduce improvements.

Personal research remains necessary because official statistics can always be manipulated. For instance, the actual inflation figure in Argentina is far higher than the figure officially reported. Or a country with a good track record in deforestation owes its good record to the fact that it hardly has any forests. It is also important to realise that environmental issues may deteriorate into social issues. That was the case in Venezuela where very polluted water may eventually affect the supply of drinking water to the population. These type of issues have to be taken into account.

"It's not just about money, you also have to take account of local inhabitants or refugees, which places you in a dilemma. You try to respect western values when taking investment decisions, but you are also aware that some countries have emerged from a totally different level and are trying to make long-term improvements. That's also something you have to consider," says Wouter.

The question is whether emerging countries are waiting for investors who are going to tell them how things should be done. The answer is yes, because institutional investors such as pension funds are long-term investors. These countries prefer institutional investors to hedge funds, because they know that after a few years hedge funds will have disappeared again.

"We carefully assess whether a country is able and willing to pay," says Wouter. "In 2007, a new president took office in Ecuador. In 2008, he declared Ecuador's high-interest national debt to be illegitimate. The church in his country supported his position. Fortunately, we were able to exit on time. Needless to say, you try to avoid these type of risks."

As part of their work, Wouter and Onursal follow the news on a daily basis. Developments such as long-term reforms and security risks in Mexico are followed closely, because they may be decisive for their investment decisions. It goes without saying that customer wishes are also taken into account. A country may be accepted on the basis of the standards, but if a customer does not wish to invest there, it is no longer an option.

ESG integration by external managers

MN has outsourced 54% of the assets under management to external managers. It is important that the SRI policy of the clients is applied in full. MN guarantees this by selecting, monitoring and evaluating the performance of external managers. By having them report on ESG annually, we gain a greater insight into the extent to which managers invest responsibly and how they integrate material ESG risks into their portfolio. Furthermore, MN – as a signatory to the PRI – encourages external managers to adopt the UN PRI guiding principles and formulate a responsible investment policy of their own.

MN aims for ESG integration by external managers by means of the following steps:

Aiming for ESG integration by external managers	Activities 2014
Manager selection	ESG analysis of new managers on the short list.
Monitoring	MN has developed a standard report that must be completed by all external managers. The questions have been specifically tailored to the investment style (passive, active, quantitative strategies), with extra questions being formulated for investment fund managers.
Dialogue	Entering into dialogue with managers with a low ESG score and where MN identifies material ESG risks, in order to bring about improvements.
Manager evaluation	The ESG performance is addressed by Product Management during review meetings with managers. If necessary, a representative of the SRI team is present.
External manager remuneration policy	Initiating discussions about a fair remuneration policy for external managers.

Active ownership

On behalf of its clients, MN exploits the opportunity as an investor to exercise control and influence. This is possible in the case of various investment classes. For instance, MN ensures that voting takes place at most of the annual shareholders' meetings. MN also engages with companies in which clients have significant positions and where material ESG risks may occur. If clients suffer financial damage as a result of alleged fraudulent actions by a business in which investments have been made, legal proceedings may be initiated.

Voting policy

MN reaches agreements with its clients on voting policy. This policy is derived from, for instance, the International Corporate Governance Network (ICGN) and the Dutch Corporate Governance Code. An assessment is made per market or region as to whether the policy can be applied and how it affects the final voting decision. The voting policy is evaluated annually and brought into line if necessary with changed legislation, new corporate governance insights or other relevant developments. In recent years, adjustments have been made to take account of several changes to the law, but also to respond to a growing focus on remuneration. The voting policy is implemented on the instructions of MN by ISS (Institutional Shareholder Services). Each year, MN assesses whether ISS is implementing the voting policy correctly and whether the policy still suffices. In 2014, MN voted on behalf of clients at 3,203 meetings, which corresponds to 93% of all meeting at which MN could vote*.

- *Limiting the salaries of directors*

Shareholders can voice their opinion on the allowances and salaries of directors of a company. It has become clear in recent years that pay, particularly in the US, is disproportionately high. Up to 2014, nothing was included in the voting policy regarding the levels or amounts of salaries. The policy provided only for the composition of a remuneration package and the extent to which this package was in line with the strategy of a company. In 2014, MN investigated the effect of including a cap and included it in the voting policy. At present, the size of a remuneration package is also being assessed, as well as the extent to which the package deviates from the reference group of a company. A remuneration package that is

* In some countries, voting is too time-consuming because of legislation and the administrative obligations involved.

not in line with a company's reference group or the lack of a link between performance criteria and long and/or short-term remuneration are the most important reasons for voting against. In the case of short and long-term remuneration, it is vital that the pay is in line with the long-term strategy of a company and the corresponding objectives. Companies are expected to publish criteria for both the short and long-term remuneration. In the past year, a clear increase was evident in remuneration packages at financial institutions. MN responded by voting against all proposals that involved the variable remuneration being extended to 200% of the fixed remuneration.

In 2014, the effect of the adjusted voting policy was clearly evident and it appears that more votes were cast against remuneration proposals.

- *Diversity*

Diversity is one of the adopted points for improvement when it comes to voting policy. European and Dutch policy is geared to increasing diversity on the boards of listed companies. The aim is to have boards consisting for 30% of women by 1 January 2016. However, a majority of companies have yet to achieve this aim. MN believes that diversity is more than the number of women on a board. Origin, work experience and age should also be criteria.

- *Voting in emerging markets*

In emerging markets, information for a shareholders' meeting is often limited compared with developed markets. The agenda containing information about, for instance, the directors is often published late or in a language other than English. In Asian markets, in particular, a board may contain a majority of dependent directors, because the company is a family firm or because directors have been working at the company for quite some time.

Dialogue

As part of active ownership, MN consults with companies on behalf of clients regarding their social responsibility. In doing so, MN focuses on changing risk culture and ethics, remuneration policy, corporate governance and transparency.

For this purpose, MN selects three different types of companies. The first category consists of Global Compact violators. These are companies violating UN international guidelines relating to workers' rights, social rights, the environment and anti-corruption. Furthermore, MN selects a number of companies in which clients have significant holdings. MN also

consults with Dutch listed companies. In 2014, MN contacted 74 companies in the context of the engagement programme.

MN believes that collaboration with other investors contributes to successful dialogue. Collaboration means that greater influence can be exerted and tasks can be shared effectively, so that more companies can be approached than when MN operates alone.

In 2014, MN was requested to consider measuring the effectiveness of the dialogue. In 2015, MN will submit a proposal to clients.

Legal proceedings

The third instrument in active ownership is conducting legal proceedings intended to obtain compensation for investment losses and/or enforce corporate governance improvements and/or general prevention.

Conducting legal proceedings is expensive, it may be a lengthy process and it's labour-intensive. Nevertheless, it is sometimes necessary. One of the cases being conducted is against MGM, which has informed the market in an incorrect and misleading manner, as a result of which MN's client has suffered damage. The compensation to be paid will be used to benefit members, who can follow the progress of this and other legal proceedings by means of the responsible investment quarterly reports.

The following table provides a summary of the results of the activities performed by MN on behalf of clients relating to exclusions, ESG integration and active ownership, for various investment classes.

Asset class	Internal/ external	Exclusion	ESG integration	Active ownership		
				Dialogue	Vote	Legal procedures programme
Equity	Internal	Yes	In 2014, a benchmark was created for developed countries in which the 10% worst ESG performers are not eligible for investment. A similar proposal has been put forward by clients for emerging countries. This strategy will be implemented in 2015.	Yes	Yes	Yes
	External	Yes	ESG factors are an integral part of both the external manager selection process and the investing and reporting process of external managers.	Yes	Yes	Yes
Corporate bonds	Internal	Yes	A number of relevant ESG factors are assessed per sector, included in the analysis and recorded.	No	N/A	Yes
	External	Yes	ESG factors are an integral part of both the external manager selection process and the investing and reporting process of external managers.	No	N/A	Yes
Government bonds	Internal	Yes	A number of World Bank governance indicators are assessed that relate mainly to "willingness to pay". Only the best 25% of countries are eligible for investment.	No	N/A	Yes
Hedge Funds	External	Yes	Negative screening of certain investment strategies, no aggressive activism strategies, no physical exposure to commodities, ESG criteria in hedge fund selection, ESG reporting obligation and active monitoring, also regarding ESG issues	No	N/A	No
Private Equity	External	Yes	Negative screening of certain investment strategies, no exclusive focus on LBOs (financing method based on borrowed funds) and financial engineering, ESG criteria in selection process, ESG reporting obligation, active monitoring in advisory committees or annual boards and focus on adjusting fee structure, a better societal interest and improvement of the governance of the limited partner/general partner relationship. Member of ILPA (an interest group of private-equity investors or institutes) and signatory to UN PRI PE Guidance	Yes	MN participates in advisory committees so as to exercise influence	No
Infrastructure	External	Yes	As yet no separate ESG approach. Same policy as for Private Equity.	Yes	MN participates in advisory committees so as to exercise influence	No
Special Investments	External	N/A	ESG assessment specifically for investment, embedding via mandate, instrument and approval processes.	N/A	No	No
Listed real estate	Internal	Yes	ESG factors are taken into account during the investing analysis.	Yes	Yes	Yes
Non-listed real estate	Internal	Yes		Yes	N/A	No
	External	Yes	ESG information obtained through participation in the Global Real Estate Sustainability Benchmark and by engaging with all the property funds. Negative screening for certain tenants, ESG criteria applied to selection process, ESG reporting duty, active monitoring through advisory committees and annual boards.	Yes	N/A	No
Commodities	Internal	Yes	No investment in physical commodities and small-scale commodities markets		N/A	No
Cash	Internal	Yes	Banks and brokers who score too low in six-monthly sustainability assessments are not eligible for transactions.	Yes	No	No

From responsible asset management to sustainability

A satisfactory pension involves more than a proper financial benefit, it also touches upon the society of the future. Clients therefore consider how pension funds can add to the enjoyment of an effective pension by contributing with their investments to a sustainable society. The focus is on a positive impact rather than preventing the negative effects of investments. Is it the role of pension funds to invest in lifetime homes for those aged fifty and above so that they can live out their retirement in suitable surroundings? How can a pension fund help to ensure that the risks of climate change will be managed in the long term and what will this mean for financial return in the short term? These types of questions are increasingly being asked by asset managers focusing on a sustainable society.

MN offers proactive advice in this respect. In 2014, MN drew up a strategic document that indicates the ways in which clients can implement impact investments in the portfolio.

In 2014, MN helped to set up the Dutch National Investment Institute (NLII). The NLII is a private institute. Its most important aim is to boost economic growth in the Dutch economy by bringing the demand for and supply of long-term financing in the Netherlands more into line with one another (in addition to financing by banks and the government). The NLII does this by developing proposals, in collaboration with parties including MN and its clients, which satisfy the investment demands of these investors and meet capital requirements. The NLII focuses on long-term financing problems of Dutch parties in areas such as infrastructure, energy, the sustainability of society, care and SMEs.

MN sees scope in 2015 to consider this issue in greater depth and hopes that this will ensure the continued pioneering status of our clients when it comes to responsible investment and sustainability. Furthermore, on the basis of the advice being prepared by the Social and Economic Council of the Netherlands (SER), which is expected in 2015, attention will be devoted to the relationship between pensions, care and housing when bringing about the viable financial future that people deserve.

Responsible investment communication

MN considers it vital to account to stakeholders such as clients, employers and members. MN's responsible investment policy is explained on its website, which also features reports on exclusion, voting and the dialogue with companies in which clients invest.

An increasingly critical society means that pension funds can benefit from proactively reporting on the social consequences of their investments. MN therefore supports clients in complying with statutory and social requirements. For instance, MN checks whether clients' websites meet the statutory requirements relating to voting and the Corporate Governance Code. In 2014, MN collaborated with two clients to produce public-friendly SRI reports. These reports allow clients to explain clearly to members how their pensions are being invested in a responsible manner.

Joint initiatives relating to sustainable financial markets

MN considers it important, also on behalf of clients, to take responsibility for the development of sustainable financial markets. With the credit crisis fresh in the memory, MN has taken part in the past year in the following initiatives.

Financial market stability

On the basis of their role as a shareholder, customer and business partner of banks, clients have a huge interest in the stability of the financial sector. In 2013, together with other institutional investors, MN requested a large number of banks to increase transparency by implementing the Enhanced Disclosure Task Force (EDTF) framework of the Financial Stability Board (an organisation set up by the G7 that promotes the stability of the financial markets) and to bring about a more uniform reporting of bank risk management. MN was one of the parties advising banks on the implementation of the EDTF recommendations. From discussions held with Dutch banks in 2014, it can be concluded that they are aiming for full implementation of the EDTF recommendations and are being supported by the Dutch Central Bank and the Netherlands Authority for the Financial Markets.

Engagement relating to the remuneration policy of banks

In 2014, MN, together with other asset managers (APG and PGGM), held consultations with a number of large banks and put forward clear arguments for a sound remuneration policy and a business culture that puts the interests of customers first. A company that puts customer interest first is based on a sound remuneration policy that guarantees that customers are treated with care. Banks recognise our arguments, but they also wish to be attractive employers for leading financial talents. As a result of intense lobbying, American banks are not bound by restrictive remuneration rules. Although UK banks are subject to EU legislation, various banks manage to circumvent these rules in order to pay out huge bonuses.

Shareholder guideline

MN is an active member of EUMEDION, the Dutch representative of institutional investors with regard to corporate governance and sustainability. As a result of their joint size, the members can exercise a great deal of influence at home and abroad. In 2014, EUMEDION responded to the European Commission's proposal for the Shareholders' Rights Directive. The position paper supports the proposed (i) identification of shareholders; (ii) transparency and shareholder involvement of institutional investors with regard to their investments; (iii) influence of the general meeting on remuneration policy for directors; and (iv) improving transparency and the influence of shareholders relating to transactions where a possible conflict of interests may occur. MN contributed actively to this position paper.

CIO dialogue

By means of the Chief Investment Officer (CIO) dialogue, MN works together with other Dutch institutional investors to ensure that its opinion is made known regarding a variety of policy-related subjects. For instance, MN is working on a framework to enlarge investments in the Netherlands, an active fiscal policy for institutional investors and a vision document regarding fair remuneration for external managers. In the context of transparency and education, a rotating group of investors affiliated to the CIO dialogue invites media representatives several times a year to update them on current subjects and the views of institutional investors.

Summary of results and ambitions in 2015

Ambition	Objective in 2014	Result in 2014	Objective in 2015
MN is acknowledged as a responsible asset manager with a strong focus on SRI.	MN is in the top quartile of the annual UN PRI survey.	Achieved.	MN scores 75% on the PRI survey.
Clients regard SRI as an important part of MN's services to clients.	MN achieves the agreed CSS score on SRI policy.	Clients give MN an average score of 7.2 for SRI advice.	Clients give MN an average score of 7.5 for SRI advice. MN develops detailed policy advice on tax avoidance and encourages clients to implement this policy (whether or not in amended form). Advising clients as to whether and how diversity can be included in voting policy.
SRI is part of MN's DNA.	SRI is a permanent part of annual plans and reports.	SRI is included in strategy proposals, where possible. Furthermore, MN reports on SRI on a regular basis and a project has been launched to include SRI data in the information systems.	Further integration of SRI data in existing reports.
Complete ESG integration.	ESG criteria have been integrated into 70% to 80% of all investment classes in a manner that can be audited.	ESG integration amounts to 50%.	Implement client mandates, develop methods to measure ESG integration and improve the monitoring and reporting of ESG criteria.

As a result of the shifts in the weighting of the underlying asset classes, ESG has been integrated in 50% of the investments. The mandates approved by clients in 2014 will be implemented in early 2015, which is when ESG integration will take effect. If these approved and adjusted equity mandates are included, MN will have integrated ESG factors into 61% of the investment policy.

Ambition	Objective in 2014	Result in 2014	Objective in 2015
<p>Customer-focus and optimal implementation of SRI policy on behalf of clients.</p>	<p>KPIs relating to optimal implementation laid down in processes:</p> <p>Implementing exclusion policy in accordance with clients.</p> <p>Being fully compliant with statutory provisions regarding voting policy and voting behaviour.</p> <p>Active engagement with at least 90% of the businesses invested in that are non-compliant with the UNGC or 10 guiding principles.</p> <p>Funding ratio participation in US class action settlements > 90%.</p>	<p>The exclusion policy, voting policy and engagement process are part of externally audited ISAE procedures that were also approved in 2014.</p>	<p>Tighten ESG criteria for external managers with regard to signing the UN PRI.</p> <p>Evaluate policy for conducting dialogue on the basis of the following objectives: what result is intended within what period? If the intended result is not achieved within the set period, the client will receive a substantiated proposal from MN for a follow-up approach based on initiating divestment as a result of unsuccessful dialogue. ('engagement-led divestment').</p>
<p>MN holds discussions with clients on making SRI policy more sustainable so that clients remain leading with regard to responsible investment and sustainability.</p>	<p>Place SRI on the agenda in consultations with clients.</p>	<p>The first exploratory discussions with various clients have taken place.</p>	<p>Map out the important trends within the theme of energy and climate. As a result, MN wishes to be able to calculate the carbon footprint of its clients.</p>
<p>Where possible, within our role as a pension funds, we make a positive social contribution with impact investing.</p>	<p>Approved impact investing strategy documents.</p>	<p>Strategy document not yet ready.</p>	<p>MN will develop a vision on impact investing that can serve as a basis for implementation in existing or new mandates.</p>
<p>Meeting statutory and social transparency demands regarding SRI.</p>	<p>Transparent accountability regarding SRI in at least four initiatives demonstrably contributing to making financial markets more sustainable.</p>	<p>SRI reports have been submitted on a quarterly and annual basis to clients. For demonstrable contribution to making financial markets more sustainable</p>	<p>Strengthen communication relating to SRI, including new MN website and dialogue with clients about SRI communication by pension funds.</p>



“Sustainability contributes to the rejuvenation of the Homes portfolio.”

Interview

Dennis Verhagen

Homes portfolio manager

He still can't believe it. Only a day after he submitted his application, Dennis Verhagen, Homes portfolio manager at the Real Estate NL department of MN, received permission to follow a course – a course which was not cheap by any means. The Real Estate Master, a leading course for strategic real estate professionals, would keep him indoors for the next two years, but that was a sacrifice he was willing to make. MN was willing to make that sacrifice too because the demand for homes by institutional investors is on the rise. And that's when you need properly trained staff.

“As a result of the course, I have become far more professional,” says Dennis. “My understanding of developments on the real estate market has increased and, more to the point, my network has expanded substantially. MN benefits too, because an effective network really helps to conclude deals.”

As a subject for his final graduation paper, Dennis opted for making homes more sustainable. “Knowledge of sustainability is available in the case of commercial real estate, such as offices and retail premises, but little was known regarding homes. I was keen to know whether you could effectively demonstrate that investing in the sustainability of homes could be achieved on a cost-neutral basis or whether you could even obtain return by doing so.” With the scientific circumspection typical of a Master, he now says: “After careful consideration, I have concluded that it's possible.”

The final graduation paper subject is closely in line with the policy of MN clients PMT and Bpf Koopvaardij, who are currently involved in projects to make the Homes portfolio more sustainable. It has become clear that the fall in energy costs and the rise in living quality are such that rent increases can be introduced and that investments can be made in any event on a cost-neutral basis. "Moreover, this contributes to the rejuvenation of the Homes portfolio because those houses become competitive once more, which means that vacancies will disappear," Dennis explains.

His graduation paper has attracted interest in the real estate sector and he is regularly invited to come and present his findings. Making homes more sustainable complements the ESG integration that institutional investors are aiming for.

Dennis is delighted with the generous cooperation of MN, both from a financial point of view and as regards the time he could devote to his studies. He also has a recommendation. "It would be a good idea if MN linked the completion of a course to a follow-up career path so that the investment in time and money offers new possibilities and opportunities to both MN and the employee."

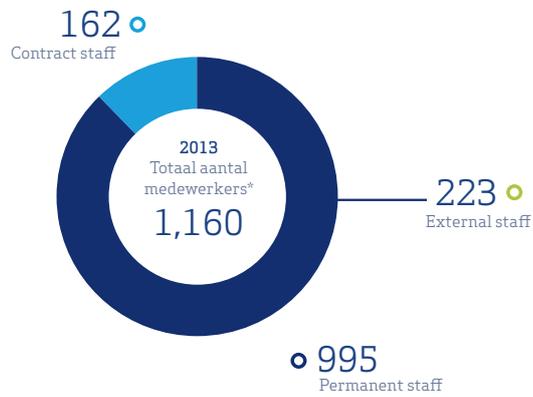
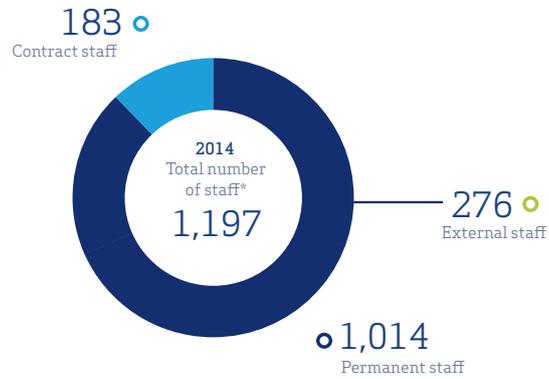


Future-driven personnel policy

Future-driven personnel policy

When it comes to creating value for the stakeholders of MN, our staff are the most important players. The staff create the intellectual capital and provide the executive power for achieving the objectives of MN and increasing customer satisfaction. This is vital for our service provision, which is why MN attaches great value to the interests and development of its staff. MN provides its staff with possibilities to progress, to grow and to develop in a dynamic environment.

Number of MN staff



* Excluding the London office

The calculation of the number of external staff indicates the size of the flexible personnel shell at MN that consists of secondees and temporary employees. This calculation does not include external services such as security and auditors.

Human Resources strategy

MN's strategy requires staff to continuously acquire new knowledge, to adapt easily and to perform as agreed. The starting points of the human resource (HR) policy are aiming for customer focus, a result-oriented approach and a willingness to adapt. To highlight these starting points, MN has defined the following strategic priorities for the future-driven personnel policy in the period from 2014 to 2016:

- *Helping MN to transform*: by means of a specific approach, we focus on increasing adaptability.
- *Reinforcing the management*: the management has an essential role to play in achieving MN's goals and will be closely supported by HR.
- *Boosting the desired performance*: in an organisation that has to adapt under pressure from developments, good performance by staff is vital. HR provides systems, processes and skills to achieve this as far as possible.

These priorities are also reflected in the long-term change programme MN3.0. This programme focuses on three work-related approaches (Pure, Passion and Performance) that correspond to the core values of MN. The Pure approach focuses on developing inspiring and tenacious managers, who bring about change for the sustainable success of MN. The Passion approach is used as a base to coordinate all communication relating to the MN3.0 organisation-wide change with the aim of inspiring and bringing together staff. The aim of the Performance approach is to ensure that all teams within MN have a repeated focus on performance. Important underlying conditions for implementing the HR strategic pillars are the vitality and commitment of staff.

Transformation

MN's HR strategy plays a major role in the MN3.0 change process. This involves developing a more flexible organisation and increasing the willingness to change throughout the organisation. In 2014, this was particularly evident in honing the deployment of staff by means of development and training and by focusing on mobility and employability.

Development and training

MN uses development and training to ensure that employees maintain their standards in their daily work and continue to comply with changing customer wishes with regard to both knowledge and skills. We do so by giving employees the best possible opportunities to participate in development activities. MN offers development and training activities via the MN Academy. The training sessions taking place within MN are included in the training calendar. In 2014, MN developed the Mentorship programme. This programme offers professional supervision to employees on an individual basis. Furthermore, a new training programme – Personal Growth Expedition – was launched in 2014. This is a development programme for employees geared to discovering personal strengths and development points, result-oriented cooperation, providing feedback and calling one another to account. These skills help staff to cooperate more effectively.

In 2014, MN also initiated activities to produce a personal development budget in 2015 and to be able to offer staff an employability scan.

	2014	2013
Staff	1,197	1,160
Amount	€2,939,459	€ 2,501,734
% of the wage sum	3.5%	3.2%

Mobility and employability

Our staff are our capital and in the MN specialist knowledge areas human capital is a scarce commodity. To ensure that MN staff can be employed sustainably, the mobility and employability of staff are vital. In 2014, agreements were reached with the social partners and in addition to focusing on the inflow and outflow of employees, the internal advancement of staff was highlighted.

The communication regarding the MN3.0 change programme indicated that as a result of further digitisation, more than 200 full-time jobs will disappear in the next few years. For MN, this is an extra motivation for focusing on the mobility and employability of all our staff. This will be coordinated with the trade unions in the social plan.

Mobility is an important condition for improving competences and staying in work. MN is in favour of offering staff other positions, tasks or roles, where possible, on a regular basis. Consequently, employability is increasingly becoming a hot topic in the annual appraisal interviews with staff. In the context of sustainable employability, MN has agreed with social partners that from 1 January 2015, it will make an individual development budget and an employability scan available. The aim of the individual development budget is to contribute to improving the labour market position of MN staff, without having to resort to the standard development possibilities. The aim of the employability scan is to give employees the possibility to consider their career and to assess who you are, what you want and what you can do. These arrangements have been coordinated with the works council.

Inflow: labour market communication

In 2014, MN continued to develop policy to link the internal and external labour market. The *werkenbijMN* (working at MN) website was well-visited. MN also devotes a lot of time to job marketing and online branding. Furthermore, we showcase the organisation by organising events for internal and external potentials, such as the in-house days for young professionals, the ICT Future Event and the Visionary Women in Pensions event.

Inflow and outflow of employees

■ entered service
 ■ left service

2014



Number of permanent employees and contract staff 1,197

156 entered service

101 left service

2013



Number of permanent employees and contract staff 1,160

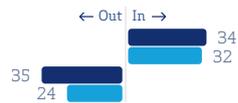
146 entered service

88 left service

Age <30



30-50



>50



Manager reinforcement

In creating the new MN organisation, the role of managers is vital. To help them reach the desired level, HR will be supporting MN managers closely by means of a leadership programme that is part of the culture programme. This leadership programme is intended to develop inspiring and tenacious managers who will bring about change for the sustainable success of MN. It consists of the following four elements and will be launched in 2015.



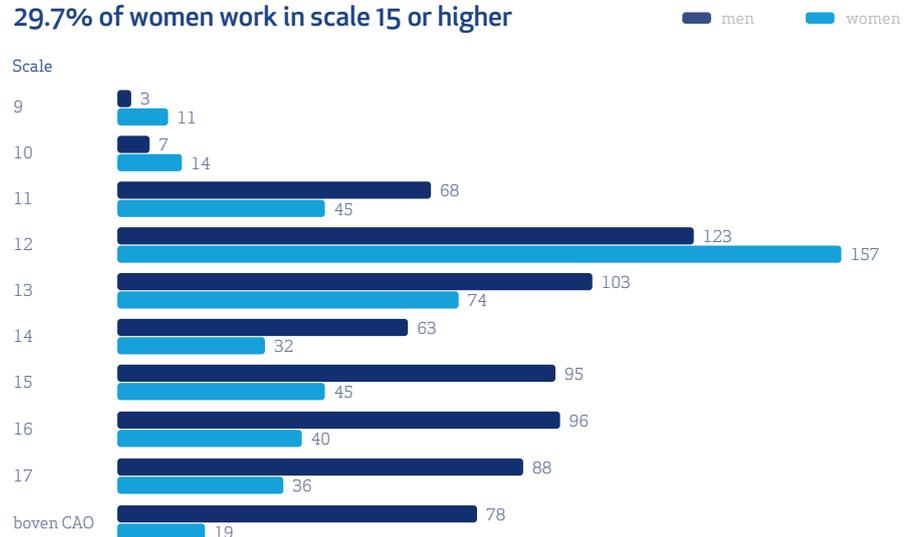
Diversity and equal opportunities

MN wishes to have a workforce consisting of men and women of diverse age groups and level. MN believes that such diversity leads to mutual respect, successful teamwork and promotes creativity, productivity and a positive environment. In order to promote more women to higher management positions, the MN in Balance project was launched in the autumn of 2013 with the aim of bringing about a better ratio between the number of men and women in management positions. For this purpose, HR has mobilised MN female staff with management potential and is boosting awareness at strategic management level. The gender diversity policy is based on three elements: acknowledge, recognise and embed.

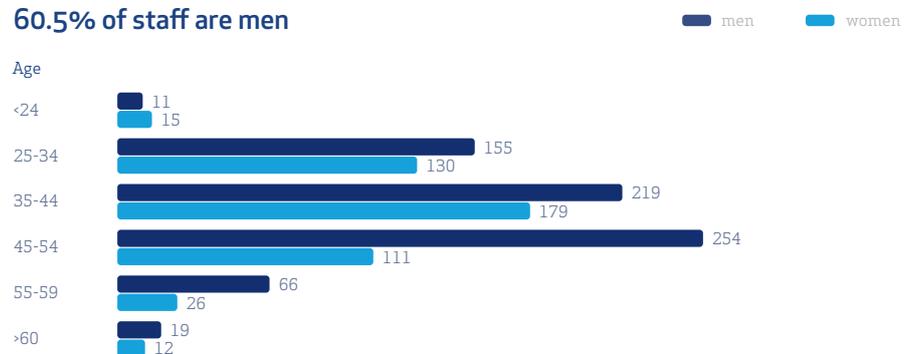
In 2014, in the context of MN in Balance, Mindbugs sessions were held for Executive Board members and managers. Furthermore, four meetings were organised in 2014 for the MN female network and there was a very successful 'Visionary Women in Pensions' gathering for women in key positions in the pension sector. There were also three female leadership training sessions devoted to explaining the board room dynamics to women who work with many male colleagues. These aspects were embedded in the HR policy by means of strategic personnel planning sessions with the Executive Board. In 2014, ten women advanced within MN as a result of lateral staff changes and promotion.

In 2014, the diversification policy focused on the development and advancement of women. In 2015, consideration will be given to structuring the diversification policy in a broader sense.

29.7% of women work in scale 15 or higher



60.5% of staff are men



Composition of management layers

	Men	Women	Total
Executive Board	8		8
Directors	7	1	8
Unit manager	11	1	12
Department head	9	4	13
Team manager	53	20	73
Staff	636	447	1,083
			1,197

Boosting the desired performances

Pension funds and clients are satisfied if members are satisfied. For this purpose, MN must facilitate flexible, reliable and affordable provision of new products and services at an acceptable time-to-market. This means that a result-oriented approach and customer focus have to be embedded in the organisation. Consequently, the culture, organisation, systems and processes have to be in line with one another. The job category system is an important tool in this respect.

In early 2014, the new job category system was actually introduced. The content, tasks and objective of each job is stated. The job category system also highlights advancement opportunities. The new system focuses on output: the results that must be achieved. In 2014, in line with the job category system, MN introduced a cohesive, transparent, consistent and responsible remuneration policy. This involved a transition to another salary system: the Hay system. In the first six months of 2014, the various aspects of the remuneration policy were discussed with the social partners and the works council.

An important element of this remuneration policy is MN's desire to attract and retain staff by emphasising the social relevance of the work and the development possibilities offered by MN. With regard to remuneration, MN wishes to keep in line with the financial services market (and a particular segment within this market where necessary). Specifically, this means that the remuneration policy focuses on the median of positions of a comparable weight and is therefore more moderate.

The Executive Board and senior management have been given the option of waiving their variable remuneration in exchange for fixed remuneration. This target group, including the members of the Executive Board, have opted to waive their variable remuneration.

In 2014, in addition to this specific target group, MN employed 57 staff who were entitled to variable remuneration as part of their total pay. These are staff within the Investments and Fiduciary Management departments. In the same year, 55 of them actually received variable remuneration. Variable remuneration is awarded in accordance with a number of fixed steps based on individual annual objectives. In 2014, the average proposal in the context of variable remuneration at MN was 12% of the fixed salary. Detailed information about the remuneration policy is provided in the annual Financial Statements.

The Management Board has its own remuneration policy, which was adopted by the General Meeting of Shareholders on 3 April 2014. The reference point is the median of the managing director market. The Management Board does not receive variable remuneration. The severance payment is a maximum of one year's salary.

Staff vitality

MN believes that energetic people feel more at ease with themselves, are more high-spirited and often enjoy good health. Moreover, MN is of the opinion that energetic staff are more productive and efficient. That is why MN is focusing on the vitality of its staff.

MN's internal fitness studio is well-attended (an average of 891 visits a month). Staff working in Amsterdam are increasingly using the possibility of obtaining an allowance for participating in fitness programmes and/or attending a fitness centre. In addition to fitness, workshops relating to nutrition and sleep patterns have been organised, as well as a mindfulness course. This policy will be continued in 2015 with the accent on relaxation.

Furthermore, various activities have been organised, such as a health week, and staff have participated in the CPC, Roparun and Dam tot Damloop running events. One of these events was also used to collect money for a good cause: the Right to Play.

Absenteeism

	Target	2014	2013	2012
Progressive absenteeism	<3%	3.8%	3.2%	3.1%

Absenteeism is an important aspect of vitality. In 2014, MN contracted a new health and safety service to focus more effectively on current rates of absenteeism, but particularly with the aim of preventing absenteeism. One of the reasons given for the higher rate of absenteeism in 2014 compared with 2013 is the focus on processes by this health and safety service, which has led to more absenteeism being identified. Furthermore, several units reported a relatively large number of cases of long-term illness. We believe that this may have been caused by tensions within the organisation following the announcement of the change process in November.

The new health and safety service uses the evidence-based approach of the Work Ability Index. This new approach is expected to yield benefits in 2015. MN hopes to achieve an absenteeism rate of < 3%, which is why a strategic plan is being drawn up to achieve an improvement in collaboration with the health and safety service.

Finally, MN will again be offering its staff the flu vaccination this year in order to restrict absenteeism.

Staff satisfaction

Staff satisfaction survey

One of the ways of measuring the extent to which MN is a good employer is the staff satisfaction survey. This survey is carried out every 18 months. It was last held in October 2014. Staff satisfaction and various other aspects are measured in this survey. The most recent survey revealed a clear increase in commitment and professionalism within the teams and less satisfaction regarding communication and collaboration between the teams. These last two aspects resulted in a lower general satisfaction score in 2014.

In recent years, the general satisfaction score developed as follows:

	2014	2013 (for 2012)	2012 (for 2011)
General satisfaction figure	7.2	7.5	7.5

Top Employer

Another indicator for good employment practices is the 'Top Employer' quality mark. The Top Employer quality mark is awarded to employers that meet certain criteria relating to pay and hours, fringe benefits, training and development, career opportunities and organisation culture. MN achieved a very good score for fringe benefits. MN was awarded the title 'Top Employer Nederland' for the sixth successive time.

Social engagement

The policy relating to voluntary work has been developed and is geared to encouraging staff to volunteer to help achieve social objectives. MN is focusing specifically on objectives that are related in some way to the aims of MN or those of its clients. For this purpose, MN has entered into a partnership with two organisations:

- *Nederland Cares*: an organisation that cooperates with MN to facilitate voluntary work. Examples include refurbishing a care home, walking with elderly people or taking part in other social activities. In December, MN organised a Christmas celebration afternoon for 40 elderly people from care homes.
- *Stichting Leven en Financiën (LEF) – The Life and Finance Foundation*. LEF has a vocational (MBO) programme in which young people aged between 15 and 22 are taught to handle money responsibly. The lessons are given by financial service sector employees. The visiting tutors will be named in 2015.



"I am not on the lookout for another job."

Interview

Rosanne Bax

Rights Management
employee

"I register for more or less everything that MN offers," says Rosanne Bax. She is an Operations employee at the PME Rights Management department at MN in Amsterdam and appears to be very eager to learn. Whether it's a course about new pension schemes, IT applications or presentation technique, she takes advantage of the training on offer relating to her work. "That's necessary if you want to remain up to date and to do your work properly. Rights Management involves a host of subjects from pension build-up and calculations to retirement, and the department has to send letters to the members about all those subjects," Rosanne explains. "Some of these are individual letters that deviate from standard fund correspondence." Writing suits Rosanne and once she had learnt the ropes (she says her initial letters were far too complicated) she was designated as a contact point for the team and she helps her colleagues with their letters.

After several months working for MN, following five years as a candidate civil-law notary, Rosanne was given the opportunity to follow the Collective Pension Training of the SPO, a support partner for pension funds. "That's a tough six-month course involving subjects that were all new to me: value transfer, mortality tables, death, risk calculations and administrative subjects. MN financed the course and offered time to follow the lessons, but participants have to give up a lot of their own time for study purposes." The national exam involves writing an essay on a pension-related topic. Rosanne opted for a subject relating to her work in the notarial profession. "Following research, I discovered that the Dutch Pensions Act [*Pensioenwet*]

and the Dutch Equalization of Pension Rights in the Event of a Divorce Act [*Wet verevening pensioenrechten bij scheiding*] interpret various terms, such as divorce and pension partner, differently. There is also a difference in the way that claims are calculated and there are variations in the way that pension partner protection is arranged. Consequently, there is a great deal of confusion among all those involved."

Rosanne's essay contains several clear recommendations for improvements to the legislation. That's what made her essay stand out. Out of all the essays (227) written by the course participants in her year, Rosanne's was unanimously awarded the SPO Essay Prize by the professional jury. The choice and relevance of the subject and the clarity and logic of the arguments were singled out for praise.

However, she remains down to earth. "No, I am not on the lookout for another job. I am pleased that MN offered me this chance, that you have the opportunity to follow training in subjects that interest you and that you can choose the subject yourself. They even help you by offering tips on how to deal with exams and handling the fear of failure. I would like to advance within MN in the course of time. And if that means following new courses, I'm ready and waiting!"



Compliance and risk management

Compliance and risk management

Confidence in MN is crucial for our stakeholders. This is evident from the materiality matrix, in which MN and its stakeholders have designated confidence as the most material subject. Being compliant and managing risks are vital for gaining the confidence of our stakeholders.

Compliance

As a starting point for compliance, MN applies the internationally recognised definition:

“The compliance risk is the risk that the internal and external regulations, as well as ethical standards, are not being observed, which may result in dissatisfied clients, reputational damage and fines from the regulator.”

MN has detailed this starting point in the Compliance Charter and the Code of Conduct and Internal Policies. The compliance charter sets out the objectives, tasks and powers of the Compliance department.

By performing the tasks as specified in the charter, the compliance officers ensure that the MN staff and affiliated persons are aware of the relevant legislation and regulations and the reputational and integrity risks. The Code of Conduct sets out how MN staff should deal with customers, suppliers and society. The Code of Conduct can be found on the MN website. The compliance officer is responsible for investigating and identifying behaviour that is not in accordance with the Code of Conduct. To implement to the Code of Conduct adopted in late 2013, MN organised interactive road shows in 2014 to draw the attention of employees to integrity and information security. Dilemmas were discussed during these sessions and other topics included reporting incidents and taking responsibility. All employees have signed for the receipt of the Code of Conduct and HR has registered these signatures. The road show was received positively. Subjects that prompted the most questions were again brought to the attention of staff by mean of specific messages on the intranet and explained in more detail where necessary. The department participates in the introduction day for new staff, during which the Code of Conduct and the incidents procedure are explained. The Code of Conduct also contains a whistleblowing procedure. In 2014, no reports of a violation on the basis of the whistleblowing procedure were received by the Compliance department.

Banker's oath

As a financial sector service provider, MN attaches great importance to complying with the Regulation on the financial sector oath or promise. In 2013, the Supervisory Board and the Executive Board took the banker's oath for that purpose. New members of the Supervisory Board and Executive Board will also take this oath within three months of entering service. In 2015, employees having client contact and risk takers will also have to take the banker's oath.

Role of the Compliance department with regard to exclusion policy

MN works with external managers who manage the assets for clients. One aspect of this asset management involves the exclusion of investments that are not in line with the client's socially responsible investment policy (see Responsible asset management, exclusion and screening on page 59). The Compliance department checks whether the exclusion is guaranteed in procedures and ensures that action is taken in the unlikely event of MN or its external managers not observing these criteria. If external managers do not observe the criteria, this is reported in accordance with the incidents procedure and measures are adopted to ensure that the manager becomes compliant again. This requires constant monitoring because the criteria are always changing. More than was the case in previous years, the European Union has imposed sanctions having consequences for the investment policy of clients. From mid-2014, these EU sanctions were the result of the annexation of Crimea by Russia. With regard to monitoring the exclusion of natural persons, Compliance ensures that the EU sanction list is compared on a regular basis with the member database of MN clients. No deviations have been discovered during these comparisons.

Privacy

The member and insured parties records kept by MN for its clients contain personal data. MN's processes contain procedures and measures to protect these personal data effectively. Following a monitoring action within the Insurance unit of the way in which the medical data of insured parties are dealt with (on the clients' instructions), procedures and working methods have been tightened.

Fraud analysis

In 2013, in collaboration with the Internal Audit department, Compliance started a data analysis of fraud risks within the Insurance unit. This data analysis is an initial pilot that may be rolled out on a broader scale within the organisation at a later date. New fraud risk indicators have emerged from the data analysis at the Insurance unit that can be used to investigate potential external insurance fraud in greater detail at an early stage. The new fraud risk indicators have been added to the fraud risk checklists that are used in day-to-day practice to prevent fraud.

Know Your Relations / Know Your Client policy

In 2014, the adjusted Know Your Relations policy was adopted by MN. The policy has now been set out in two policy documents, namely: Know Your Relations (KYR) and Know Your Client (KYC). The procedure for appointing external managers for asset management that are not under supervision has been tightened. For relations for whom a relatively minor one-off transaction is being carried out, the appointment procedure has been relaxed.

Risk management

An important condition for retaining the confidence of clients, employers and members in MN is the effective management of internal and external risks. MN defines risk as the potential variation from expected results that impacts the value, capital, income, clients, organisational objectives or future opportunities of MN. MN is aiming for a healthy and transparent risk management model, so that MN can demonstrate that risks have been identified and are being managed. The risk management has been organised in accordance with the internationally recognised COSO internal control framework and the Three Lines of Defence model. The business units (first line of risk management) bear primary responsibility for properly controlling the risks related to their own operations. The supporting risk and control functions are positioned in the second line and are independent with respect to the operational business units. As the third line of defence, the Internal Audit department is positioned independently with respect to both the first and second lines of defence. MN reports periodically from the second and third line to the Executive Board and the Supervisory Board Audit Committee on the effectiveness of the risk management model. The MN Risk Management department devotes attention in the planning and budget cycle to risks associated with new MN products and services and applies an approval procedure to new investment products.

MN periodically supplies ISAE 3402 reports that provide an account of the management of the client processes that have a material impact on the financial reporting by clients. The operation of the control measures is assessed throughout the year by an external auditor who issues a statement.

By means of the above control measures, MN applies the precautionary principle based on corporate social responsibility. The Financial Statements report in greater detail on the type of risks and the risk management.



“MN is just like us –
very transparent.”

Interview

Rajesh Grobbe

Bpf Koopvaardij
administrative office
employee

“I expect socially responsible investment to be given an increasingly prominent role. Investors are referring to the ESG score in growing numbers and using it as a basis for their decisions, which results in a rise in the share value. In this way, social investment can provide effective return forecasts.”

Rajesh Grobbe, employed at the Bpf Koopvaardij administrative office and charged with Compliance and Risk, needs no convincing when it comes to responsible investment. What’s more, even though Bpf Koopvaardij has delegated the management of its assets to MN, it has signed the UN Principles for Responsible Investment (PRI). “There’s no contradiction in choosing between return or responsible investment, in fact they’re becoming increasingly complementary. MN can go even further so that responsible investment becomes entirely embedded in the investment decision process. As someone recently said: ‘The responsible investment department should make itself redundant.’ Then it would be part and parcel of policy.”

The board of Bpf Koopvaardij relies heavily on MN, which is only natural says Rajesh given the outsourcing relationship and he assumes simply that ‘everything is arranged as it should be.’ He attaches great importance to the quarterly consultations, because he doesn’t believe in contact only once a year. “MN is just like us – very transparent. We concentrate on fundamental issues rather than incidents. After all, we both have the same objective: the interests of the member.” Bpf Koopvaardij and the MN customer relations

managers always reach agreement without too much bother. "I would only start to worry if I had to wait three weeks for a response to a question about pensions or asset management."

As a risk manager, Rajesh has seen the work pressure increase substantially in recent years because of the requirements imposed by the Dutch Central Bank and the Netherlands Authority for the Financial Markets. He puts things into perspective. "Relevant subjects are addressed and guidance in various areas is always welcome, which helps the sector. But at the same time, all those subjects tend to dominate the agendas of fund boards and the advisory reports have a mandatory character. We must avoid a tick-box culture. Good administration is what's important. I prefer to think rather than tick boxes." As a risk expert, he knows what he's talking about. On the basis of the DNB risk framework, Rajesh and the board have drawn up a risk dashboard, which is now considered a good practice for the sector. He has given presentations about it at many other funds.

"Risk management is also about supplying timely information about what's going on at the European Central Bank and trying to judge what they are going to do. How are interest rates developing? What's the situation in Greece? What could be the impact on the investment portfolio? That's when MN can help us to take the right decisions. Giving constructive and proactive advice is one of MN tasks. We challenge them and they advise us. We both benefit as a result."



Responsible business operations

Responsible business operations

MN works today on the sustainable values of tomorrow. As a pensions and insurance administrator, we have a major social impact, which means we also have responsibilities. The fact that this basic principle is supported by the MN staff is evident from a survey carried out in late 2014. In this survey, 75% of respondents thought it important that MN works on making the internal business operations more sustainable.

As far as our external stakeholders are concerned, sustainable business operations do not top the list of material subjects. We understand that viewpoint. Nevertheless, we believe it's important to report on this subject. We consider sustainable business operations to be one of the CSR pillars and an underlying condition for implementing the strategy. MN's priorities for sustainable business operations are reducing the carbon footprint and making purchasing more sustainable.

Carbon footprint

In recent years, we have reduced the carbon footprint of our own business operations substantially. In our Zilveren Toren (Silver Tower) premises, MN applies various measures to reduce CO₂ emissions that often have additional environmental advantages:

- green power (Dutch wind energy);
- sensor-operated taps in toilets;
- waste separation facilities;
- tap water in the meeting rooms in refillable bottles.

Specific and visible measures adopted in 2014:

- energy-efficient lighting at various locations;
- caterer's assortment extended to include sustainable products;
- water-saving flushing buttons in the toilets.

As regards MN's office accommodation, we have already adopted measures to reduce our CO₂ emissions. Mobility, i.e. commuting and business travel, is the major cause of emissions. The possibilities to reduce commuting emissions even further are limited. We apply the new way of working and we encourage the use of public transport. MN is regulated by the Dutch Central Bank and demonstrates by means of the ISAE 3402 report that it is in control of outsourced services. This control involves visiting external asset managers on a regular basis. Reducing these visits and therefore air traffic is undesirable.

In late 2014, MN staff were asked in a survey whether MN was doing enough to reduce the environmental impact of the business operations and whether they had any suggestions for further reduction measures. This survey shows that 43% believe that MN is doing enough to reduce the carbon footprint and 11% disagree. The suggestions for further reduction measures relate mainly to the use of cars (including less use of lease vehicles, cleaner lease vehicles, more working at home, exemplary behaviour by the management), waste separation and reducing paper consumption by printing less. The suggestions for waste separation are aimed particularly at the inconvenience of the current waste bins.

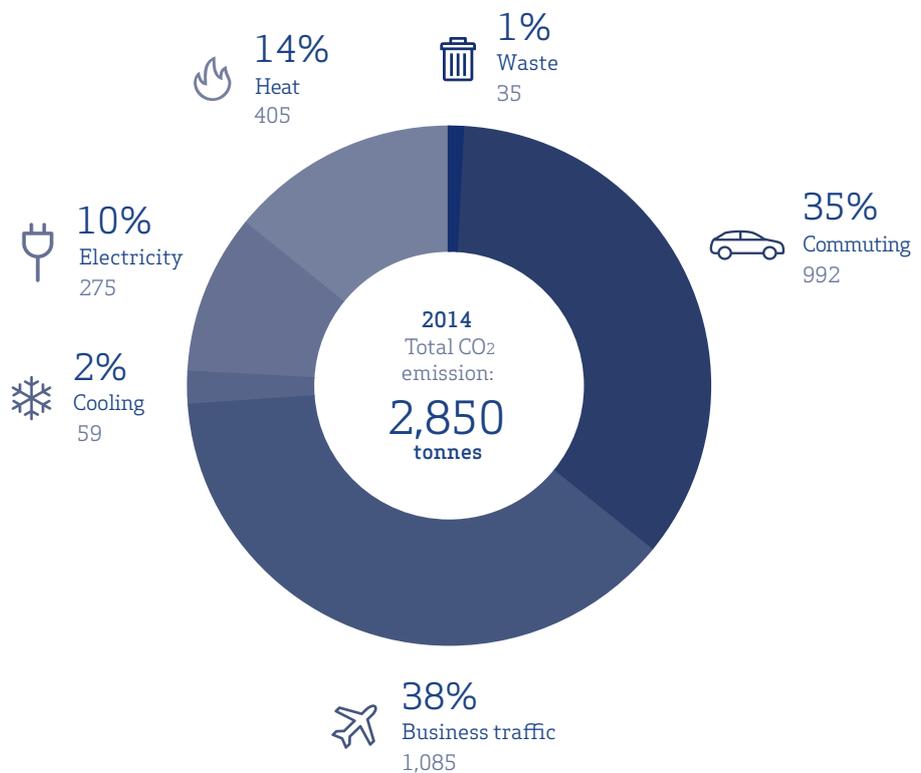
The results of the survey have been recorded internally and MN will decide in 2015 which improvement suggestions will be implemented.

Carbon footprint (results)

Each year, MN calculates the total carbon footprint of the business operations on the basis of the annual consumption of fuels, heat, electricity and other sources (the calculation details are set out in the 'Accountability' section on page 116).

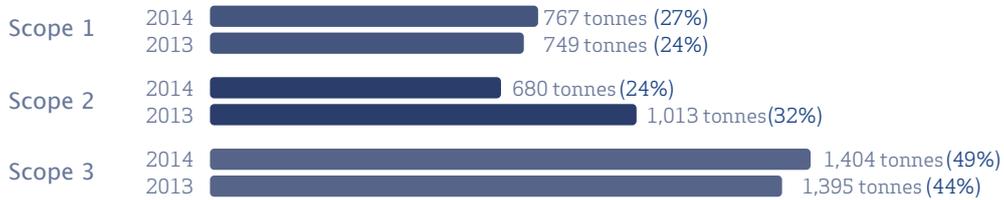
In 2014, MN's carbon footprint was 2,850 tonnes of CO₂ equivalents. This is a fall of 9.7% compared with 2013, when it was 3,157 tonnes* of CO₂ equivalents. This is explained mainly by the drop in heat consumption. This is probably the result of a better adjustment of the measuring and control technology and the relatively mild winter.

In 2014, the contribution made by business traffic to the carbon footprint increased slightly compared with 2013. This is a consequence of the number of business trips by air for the purpose of asset management abroad. In 2014, there were fewer short-distance flights and an increase in the number of long-haul flights.



* The carbon emissions of 2013 increased from 3,126 to 3,157 due to a recalculation of the cooling.

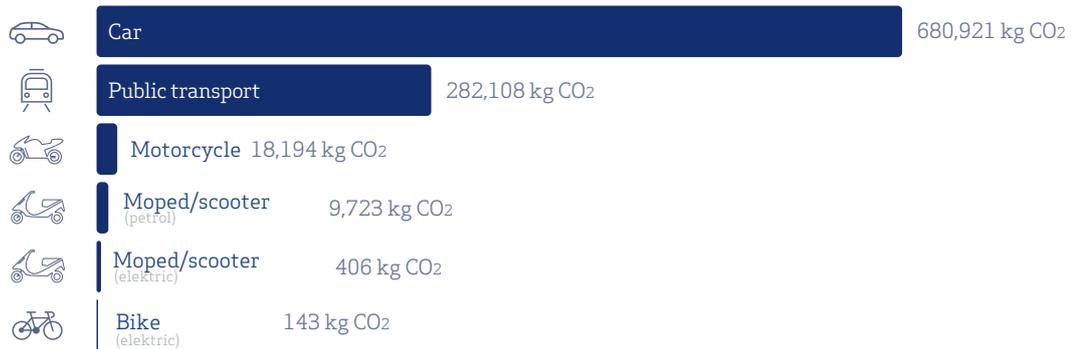
Division per scope 2013/2014



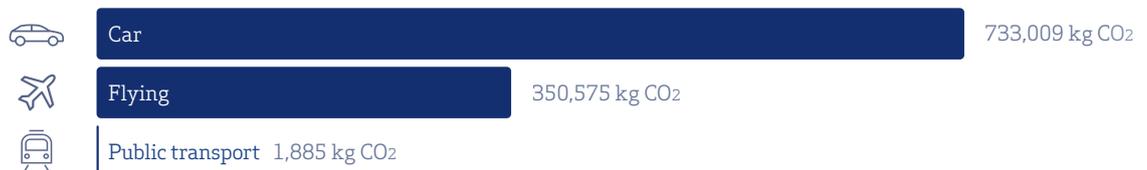
Scope 1: direct emission, e.g. from cars and equipment.
 Scope 2: indirect emission as a result of energy consumption.
 Scope 3: indirect emission from other causes, e.g. business kilometres.

To gain a better understanding of MN's score compared with similar organisations, we have converted the footprint into a number of indicators. In 2014, the CO₂ emission compared with turnover amounts to 12 gram CO₂ per euro. The quantity of energy per m² amounts to 1.3 GJ per m².

Commuting



Business traffic



Purchasing

The purchasing policy substantiates the 'responsible business operations' strategic underlying condition formulated by MN. MN has drawn up a list of high-risk companies. On the basis of the socially responsible investment policy, companies stated on the exclusion list for investments are also stated on the list of high-risk companies that MN uses for purchasing. When new suppliers are selected, a check is made to ensure that they are not on the list of high-risk businesses.

The Purchasing unit takes sustainability into account in the selection of suppliers. It does so by including CSR as a selection criterion. In 2014, a ranking sheet was developed that contains CSR items to assess suppliers. The Purchasing unit uses this sheet in processes in which a Request For Proposals is issued.

MN expects suppliers to take their social responsibility, which is why it applies a Code of Conduct containing provisions about sustainable purchasing. The Code of Conduct includes conditions relating to human rights, basic employee rights, health and safety of staff, privacy, consumer protection, the environment and ethical behaviour. The Code of Conduct is part of MN's general purchasing conditions. We are consulting with several suppliers regarding sustainability. CSR is part of the SLA and is included in the discussions.

When purchasing products that are important for MN's business operations, such as paper and energy, MN opts for certified products. MN purchases green power and uses Forest Stewardship Council (FSC) certified paper from suppliers of paper and printing offices with an ISO 14001 certificate.

Initiatives in the next 12 months

MN will continue the policy of applying measures to make MN's business operations more sustainable. In many cases, these measures also result in savings. For instance, the modernisation of the building management system will start in 2015. Improving the measurement and control technology is expected to yield further energy savings. The renovation of the system will be phased and will take four to six years. In 2015, the central printers will be replaced by two environmentally friendly printers, which means that electricity consumption will fall, fewer fine particles will be omitted and the printers will contain fewer heavy metals.

Based on the desire of stakeholders to reduce paper consumption, MN has assessed the possibilities to reduce the amount of paper in the short term. Most of MN's paper consumption relates to communications to employers, employees and pensioners. In 2014, a lot of extra post was sent in connection with the pension reduction and the changes to the pension schemes (see page 37). This volume will be reduced only to a limited extent in the short term because information has to be issued on paper in accordance with legislation (e.g. the annual Uniform Pension Overview). It should be noted that the form of the printed matter (number of pages, thickness of paper, single or double sided printing) is decided by clients and not by MN. Paper consumption will fall in the long term when the self-service pages in the portals have been developed to such an extent that data exchange that now takes place on paper can be digitised or if legislation is amended so that communication can take place in digital form.



“Waste is a raw material that can be recycled.”

Interview

Arjen van 't Klooster

Facilities manager

As far as MN Facilities manager Arjen van 't Klooster is concerned, it's all crystal clear. “If you think socially responsible business operations are important, you have to behave accordingly and give the good example.” And that means he's always trying to find ways of reducing MN's environmental impact. When you take a walk through the building with him, he will show you where improvements can be made. “We are going to replace those low-energy light bulbs by LED bulbs, which are far more energy-efficient. If it's possible to separate waste in the pantry, do it!” He believes that every employee can contribute, at MN and at home. After all, every little helps. So MN asks staff to consider whether a document really needs to be printed. Moreover, MN encourages people to come to work by public transport or bike and you can always opt for sustainable products in the company restaurant.

“We must show more respect for the earth. Waste is a raw material that can be recycled. MN has agreed with its office furniture supplier that its products must be recyclable (Cradle To Cradle = C2C). The carpet supplier collects the recyclable carpet tiles when they are ready to be replaced. Our wooden meeting tables are made of bamboo, which grows rapidly, replaces itself quickly and also absorbs a lot of CO₂.” All he means to say is that if you are willing to make the effort, there are enough effective measures that can be taken.

Together with several neighbouring companies, MN is a member of the Beatrixkwartier Green Business Club. This group takes initiatives to make better use of the joint facilities. For instance, they share the costs of recharging stations for electric vehicles in the car park. The operator was unwilling, so they decided to act themselves. Joining forces also resulted in purchasing advantages. The companies already lend one another parking spaces if one of them occasionally needs extra space. And a useless undeveloped space between the office buildings was converted into a small public park with activities such as an organic market and a flower garden for bees. In the summer of 2015, it will be used for beach volleyball. This is a response to the Beach Volleyball World Cup that will be held in the Netherlands in 2015, which will feature games in The Hague.

A sustainability survey has shown that 75% of staff believe that a focus on the environment is important. "We remind staff that a better environment begins at home. How do you do things at home and why do them differently at work?" says Arjen.

MN sets great store by a healthy lifestyle and vitality. That is why staff can use a fitness studio in the head office in The Hague or benefit from a sponsored membership of a fitness club. But to what extent is this compatible with providing interior spaces for smokers? "Can you still provide such spaces in this day and age?" Arjen wonders.



Accountability

About this CSR report

In this CSR report, MN gives an account of its corporate social responsibility (CSR) policy and the results. In drawing up the report, MN focuses on the following three groups of stakeholders:

- Primary target group: clients and potential clients of MN, employers, employees and members who use the services of MN, the social partners and MN shareholders.
- Secondary target group: current and future employees for whom the CSR annual report plays a part in the corporate story that inspires and brings together staff.
- Other target groups: these include MN suppliers and market parties (e.g. external asset managers) and influence groups (e.g. sector organisations, media and knowledge centres).

The first two sections provide readers with an understanding of MN's social context, the material subjects and the relationship between the MN strategy and the five CSR pillars. In the 'MN Profile' section, we explain the value chain and the MN business model. This yields an insight into how MN collaborates with chain partners to arrive at responsible products and services and how MN, via socially responsible investment, encourages the application of environmental and social standards in the value chain.

This report deals with MN (MN Services NV), a public limited company, the beneficial ownership of which rests with the pension funds and the social partners in the metal and engineering and the metal and electrical engineering industries and the Bedrijfspensioenfondsvoor de Koopvaardij (Bpf Koopvaardij) [Dutch Merchant Navy's Company Pension Fund]. For more information about the ownership structure and governance, we refer to the Financial Statements.

This report relates to the MN offices in the Netherlands (the head office in The Hague and our branch in Amsterdam). In addition to our head office in The Hague, we also have an office in London. This is a sales office for our services relating to asset management, the policy for which is determined in the Netherlands. With the exception of the policy for socially responsible investment, which is described in the 'Responsible Asset Management' section, the London branch is beyond the scope of this report, because we believe that the impact of this office on the total CSR performance is limited. MN is a shareholder in the insurance companies UNETO-VNI Verzekeringen (UVV) and Combinatie Bovemij MN Services (CBM). These entities are considered 'small businesses' and therefore have limited financial and other reporting obligations. Because of the limited sustainability impact of these businesses, we have decided not to issue

separate CSR reports. In the case of CBM, all administrative activities are incorporated in Bovemij and MN respectively. Bovemij reports on sustainability aspects in its own manner. UVVS has fully outsourced its insurance administration to MN.

Our largest impact takes place within our core activities, asset management and pension and insurance administration. We carry out these activities, however, on behalf of our clients. They are the parties that take the decisions and therefore have actual control. We do, however, exercise influence by issuing advice. As regards our core activities, we therefore report on the results we achieve for our clients based on this role. As regards our internal business operations (including the carbon footprint and our purchasing policy) and our staff, we do have direct control and our own results are at stake. In the 'Material subjects and impact' table in the 'MN Profile' section, we outline the impact of our material subjects for MN and its most important stakeholders.

This is the fifth MN CSR report. The information relates to the 2014 financial year that runs from 1 January up to and including 31 December 2014. Compared with last year, there are no significant changes relating to the reported information, organisation size, structure, ownership or the value chain. For the fifth successive year, this report has been assessed by an independent auditor in accordance with Dutch law, including Standard 3810N 'Assurance assignments with regard to social reports'. The assurance report is included in this annual report.

Users can therefore be sure that the report is an honest and truthful representation of the CSR performance of our organisation. For questions about our company in general, including complaints about our behaviour, please contact info@mn.nl.

This report has been approved by the Executive Board and the Supervisory Board.

Information collection

Various MN business units supply information for this CSR report. Every section has its own internal section manager who is responsible for the contents. Together with the responsible manager of the organisation unit in question, every section manager ensures that the accuracy and completeness of the qualitative and quantitative information are checked internally. The draft report is discussed in the CSR working group and in the CSR committee. To arrive at the carbon footprint for our organisation, the material emissions are calculated. These are the emissions related to the head office building and the emissions resulting from mobility and business trips. The material-related emissions of the waste we produce, such as paper, are also calculated. Where possible, we always use measured values, such as electricity and gas consumption or the fuel consumption of our lease cars. Estimates are made if no measured values were available, such as the figures for commuting. The following data were used for this purpose:

- post code databank of the staff for determining the average commuting distance;
- average staffing during a few weeks in 2014;
- data from the 2011 web poll to determine how staff travel to work (bike/car/public transport/other).

In determining the carbon footprint, generally accepted conversion and emission factors were used from nationally and internationally accepted sources (based on the Greenhouse Gas Protocol).

Applied guidelines and benchmarks

Global Reporting Initiative guidelines

As was the case last year, our CSR report follows the most widely recognised standard for CSR reporting; the Global Reporting Initiative (GRI) guidelines, version G4. This report has been drawn up in accordance with the core version: the GRI G4 guidelines. Several indicators from the GRI G4 Financial Services Sector Supplement have been applied from the Asset Management and Insurance categories. The GRI Index can be found on our website. The index states, where relevant, how MN applies the GRI definitions. For instance, reporting staff data (volume, absenteeism, training) per region is not relevant to MN and MN does not make any distinction between men and women when registering training or basic salaries. For more information about the GRI guidelines, go to www.globalreporting.org.

Integrated Reporting

To clarify the relationship between the financial and non-financial values and to provide an understanding of the input MN requires in order to achieve the desired results (output and impact), MN uses elements from the Integrated Reporting framework.

Transparency benchmark

MN participates annually in the Transparency Benchmark of the Ministry of Economic Affairs. In 2014, MN was ranked 25th on this benchmark.

Definitions

CEM-benchmark: The most internationally used reference framework to map out the performances of pension funds.

Class action: In law, a class action or a representative action is a type of legal proceeding in which a large group of people collectively submit a claim to a court or where a class of suspects are prosecuted.

Carbon footprint: A carbon footprint is used to provide an organisation with an understanding of the total emission of greenhouse gases caused by the organisation, a process or a product.

Collective defined contribution (CDC) scheme: A CDC is a hybrid scheme that combines elements of a defined (fixed) contribution and a defined (fixed) benefit. In a CDC scheme, the contribution is fixed for a substantial number of years. The level of the pension benefit is based on the salary and the years of membership. If it turns out that the contribution is insufficient, the benefit will be lower than originally intended. CDC schemes combine a limited risk of fluctuating pension liabilities for the employer with the advantages of a collective pension system (source: Pension Federation).

Compliance and integrity: Compliance is the function within an organisation that ensures compliance with legislation and regulations relating to the promotion and maintenance of the integrity and professionalism of an organisation and its board members and staff, with the aim of managing compliance risks and preventing or limiting any resulting damage.

COSO framework: COSO is an international reference framework with guidelines for internal control and internal management of risks.

Sustainability impact: Depending on its core processes, every organisation has its own ecological and social footprint. The aim is to make the positive sustainability impact as large as possible and to reduce the negative sustainability impact as far as possible.

Engagement: A type of sustainable investment in which the investor acts as an active owner and enters into dialogue about sustainability issues with the company that is being invested in.

ESG criteria: Environmental, social and governance criteria.

Global Reporting Initiative: The Global Reporting Initiative (GRI) is an international organisation that draws up guidelines for sustainability reporting. In a sustainability report, an organisation communicates its

economic, environmental and social performances to the public.
(Corporate) governance: Governance involves the way a company is managed. Important aspects are how a company is managed efficiently and responsibly, with a particular emphasis on the relationship with the most important stakeholders such as shareholders, employees, clients and society.

IIRC and Integrated Reporting: Integrated reporting is the summarising report in which organisations indicate how they apply sustainability and how strategy, governance, performance and prospects provide social value in the short, medium and long term. The framework for integrated reporting is published by the International Integrated Reporting Council (IIRC), a worldwide coalition of investors, multinationals, regulators, standard setters and accountants in the field of integrated reporting.

Key Performance Indicators (KPIs): KPIs are variables with which an organisation can monitor its progress.

Materiality assessment: Organisations can perform a materiality assessment as part of the process to determine or tighten their social responsibility. Materiality guarantees a clear and substantiated choice of themes that will be reported on.

Materiality matrix: In a materiality matrix, the importance per subject for stakeholders is weighed against the importance for the company. The aim of the matrix is to provide readers of the CSR report with an understanding of the selection of subjects dealt with in the report.

Risk management: Risk management is a tool to identify, evaluate and – by means of a proactive approach – manage risks more effectively in a structured and explicit manner. Risk management is based on performing risk analyses.

Solvency rules: Rules that impose demands on the capital requirements, risk management and reports.

Assurance statement MN Corporate Social Responsibility Report 2014

To guarantee the reliability of our reporting, this report has been given assurance by an independent auditor. The assurance report of PwC Accountants B.V. is included on page 121 of this report. The GRI table shows which G4 information has been included by our external auditor in his assessment. MN has not issued any instruction to PwC regarding the assurance of websites referred to in the Financial Statements/CSR report.

The Executive Board of MN issues the assurance assignment to the auditor. Moreover, the contents of the CSR report are discussed and approved by the Executive Board. This report is also submitted to the Supervisory Board.

Report on the Corporate Social Responsibility Report 2014

To the Executive Board of Mn Services n.v.

Engagement and responsibilities

We have been engaged to review the, in this report included (on pages 7-118), MN Corporate Social Responsibility Report 2014 (hereafter: 'Report') by the Executive Board of MN Services N.V. (hereafter: 'MN') in The Hague. In this report MN reports on its activities and performance on Corporate Social Responsibility achievements in 2014.

Scope

The review is focused on obtaining limited assurance, which does not require exhaustive gathering of evidence as in audit engagements. Consequently a review engagement provides less assurance than would be obtained from an audit engagement.

We do not provide any assurance on the assumptions and feasibility of prospective information, such as targets, expectations and ambitions, included in the Report.

The Executive Board of MN is responsible for the preparation of the Report. We are responsible for providing an assurance report on the information in the Report.

Reporting criteria

MN developed its reporting criteria on the basis of the G4.0 Guidelines of the Global Reporting Initiative ('GRI'). This mentioned on page 109 of the Report.

We consider these reporting criteria to be relevant and appropriate for our examination.

Work performed

We planned and performed our review procedures in accordance with Dutch law, including Standard 3410N 'Assurance engagements relating to sustainability reports'.

Our most important review procedures were:

- performing an external environment analysis and obtaining insight into the industry, relevant societal and sustainability issues and trends, relevant laws and regulations and the characteristics of the organisation;
- assessing the acceptability and consistent application of MN's reporting policies, including the assessment of the stakeholder dialogue outcomes, the validity on estimates made by management, and an assessment of the overall presentation of the Report;
- reviewing the systems and processes for gathering the data, internal controls and aggregating these to the information as presented in the Report;
- reviewing internal and external documentation to determine whether the information in the Report is adequately substantiated;
- assessing the compatibility with the annual report of MN to determine whether the information in both reports is consistent to another;
- relating to the Global Reporting Initiative (GRI) standard, assessing the application with the 'in accordance'-core option of the G4.0 Guidelines of GRI.

We believe that the evidence obtained from our examination is sufficient and appropriate to provide a basis for our conclusion.

This is the first year that the Report is prepared and assessed. The information included in this report that is from before 2012 is, unless otherwise stated, not examined by us.

Conclusion

Based on our review procedures performed, nothing has come to our attention that would cause us to conclude that the information in the Report, in all material respects, does not provide a reliable and adequate presentation of the financial and non-financial policies of MN or of the activities and the financial and non-financial performance of the organisation in 2014, in accordance with MN's reporting criteria.

Rotterdam, 13 April 2015
PricewaterhouseCoopers Accountants N.V.

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