Strategic investment framework

2023-2025

version 1.6

Approved on 13 December 2022

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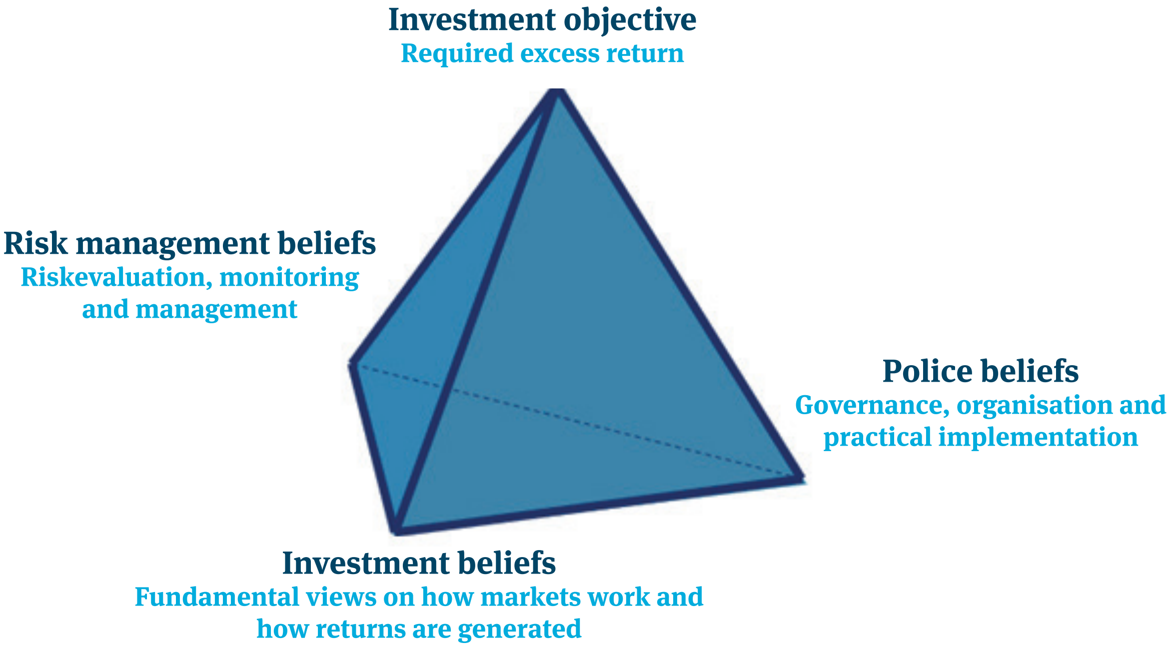
Introduction to the strategic investment framework

This strategic investment framework can be described using a ‘pyramid’ – a schematic overview of the premise that a modern and comprehensive investment framework should comprise four coherent building blocks, at the top of which sits the investment objective, which in this case is to generate the required excess returns.



To achieve its investment objective, PMT applies three sets of principles:

- **Investment beliefs:** these indicate how PMT thinks it can generate returns. They reflect PMT’s convictions about how the economy and the financial markets operate.
- **Policy beliefs:** these define the way in which the investment process is governed, organised, and implemented in practice.
- **Risk management beliefs:** these set out how the investment portfolio’s risk profile is reviewed and adjusted.

The investment objective and the three sets of beliefs and principles are looked at in greater detail below.

1. Objective

Misson

PMT provides an affordable, sustainable, and where possible, value-preserving pension for all participants. PMT is aware of its surroundings and anticipates future developments. There is collaboration with members, employers and social partners. The interest of members is always paramount. PMT is accessible and gives members – both digitally and in personal contact – optimal insight into their pension and their choices. PMT is also transparent about what happens with the paid contributions.

Payments into the scheme

To achieve its mission, PMT must first of all ensure that it has sufficient assets. PMT administers the pension scheme as agreed under the collective agreement *(CAO)*. It receives and invests pension contributions so as to be able to pay its members a pension later in life. The contributions are paid by the employees and employers according to an agreed ratio. In principle, contributions are, on average, sufficient in the long term for the (nominal) pension accrual.

Pension objective

PMT's pension objective comprises, first of all, its commitment to providing a nominal pension and, secondly, its aspiration to provide a value-preserving pension. Its investment policy aim is to deliver high enough returns on the assets invested in order to combine an affordable pension with the goal of maintaining its value. The investment policy has a long-term horizon and is always reviewed against the pension liabilities.

Required excess returns

In practical terms, PMT's investment objective translates into a required annual long-term excess return of 1.5%. In other words, the annual rate of return on investments must exceed the change in market value of the pension liabilities by an average of 1.5%. Large fluctuations may occur in the short or medium term. In a period of prolonged interest rate declines, in particular, this objective is unlikely to be achieved. In addition, in a period of higher inflation, the excess return achieved is likely to be too low to grant such an indexation that fully compensates for the price increase.

Over a long-term horizon, however, PMT has generated historical excess returns of 1.5%. With a low funding ratio, excess returns achieved will need to be used to restore the funding ratio and buffer. As PMT's financial position goes on to improve, excess returns may also increasingly contribute to indexation. Aiming to achieve a required excess return of 1.5% is in line with PMT's risk appetite.

Developments in the future might influence the level of the excess return target (1.5%), whereby it might no longer be appropriate. For this reason, table 1 outlines explicit triggers that describe which situations will trigger a reassessment of the excess return target if these triggers are hit.

Trigger assessment excess return target	Explanation
Annual review	A periodic review fits a governance cycle and will be included in the Investment Plan from now on.
Change in pension scheme or ambition	The pension scheme and ambition underlie the excess return.
Material change in regulations	Regulations are an important condition with which the investment policy must comply. A material change (e.g. change recovery period or actuarial interest rate) calls for an evaluation.
Material change in participant population	The investment policy is tailored to the current characteristics of PMT's participant population. A material change (e.g. for a major collective value transfer) is cause for review.
Premium policy	Premium and excess return finance the pension ambition. A premium adjustment can affect excess return. A long-term low contribution funding ratio is also reason for review.
Indexation policy	Indexation is largely financed from excess return. An adjustment of the indexation policy affects the required excess return.
Major change funding ratio	If the funding ratio increases or decreases by twice the balance sheet risk in 1 year (plus or minus 20% point at the current balance sheet risk), an evaluation would be recommended, as it is likely to coincide with a major external event.
Signal Investment Committee	The Investment Committee monitors financial markets and the economy. If there is a significant change in any of the economic assumptions/expectations, the Investment Committee signals this to the Board.

Table 1 Triggers for (re)assessment of excess return target

2. Investment beliefs

In order to achieve its investment policy aim, PMT adheres to a number of investment beliefs. These indicate how PMT thinks it can generate returns. They reflect PMT's convictions about how the economy and the financial markets operate.

1. Economic activity is the driver of sustained value creation within an asset class.
   [the basis for including, first and foremost, asset classes that have underlying economic activity]

2. The number of fundamental return and risk drivers is limited; the key ones being credit risk and ownership risk.
   [the basis for investing in fixed-income securities and taking ownership in companies and other assets]

3. In a properly functioning market economy, taking on long-term illiquid exposures is compensated for.
   [the basis for investing in illiquid assets]

4. In a properly functioning market economy, long-term real interest rates are positive as a result of positive economic growth. Taking (nominal) interest rate risk on the pension fund's balance sheet is not appropriately rewarded in the long term.
   [in combination with the ambition of an index-linked pension this is the basis for (largely but not completely) hedging the interest rate risk]

5. Taking on currency risk between countries at a comparable stage of economic development is not rewarded in the long term.
   [the basis for hedging all or any part of currency risk of developed countries and not hedging currency risk of emerging countries]

6. Financial markets are geared to achieving appropriate valuations in the long term.
   [the basis for the strategic policy]

7. Economic conditions and fluctuations in the financial markets affect risk premiums and the relative attractiveness of investment choices.
   [the basis for a frequent portfolio assessment]

8. It is unlikely that liquid markets involving many market participants can be outperformed over longer-term periods.
   [the basis for preferring passive following of a benchmark for liquid asset classes]

9. The investments of PMT have an impact on the real economy and society.
   [the basis for taking into account the influence of investment choices on the world]

10. Only investments that take account of ESG factors (Environmental, Social, Governance) are profitable in the long term because adverse consequences of an economic activity cannot be passed on to people, society and the environment indefinitely.
    [the basis for integration of ESG factors into investment choices]

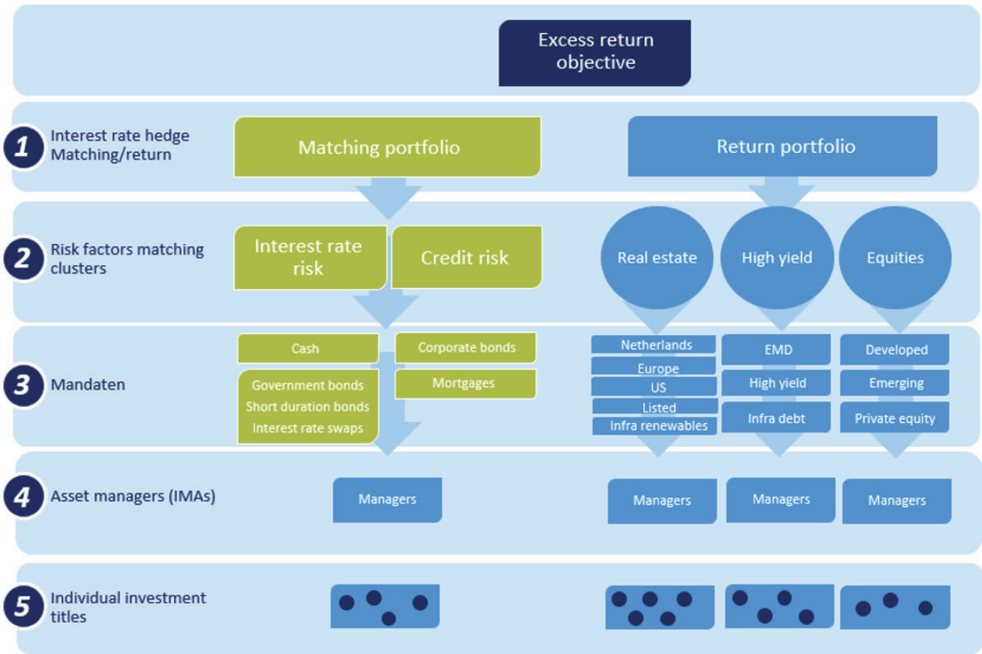
3. Policy beliefs

In order to achieve its investment policy aim, PMT adheres to a number of policy beliefs. They define the way in which the investment process is governed, organised, and implemented in practice.

A. Portfolio structure

1. **Excess returns are key**
   The investment portfolio is constructed with a view to generate excess returns, that is to say, returns i n excess of the change in market value of liabilities. This requires considering the whole of the assets versus liabilities.

2. **Five investment levels**
   The investment portfolio comprises five levels (this is further clarified under *B. Portfolio governance):*



3. **Matching and return portfolios**
   At level 1, PMT has divided the portfolio conceptually into a matching portfolio and return portfolio. The aim of the matching portfolio is to replicate the change in market value of liabilities. The aim of the return portfolio is to generate excess returns over and above the liabilities so as to achieve the excess return objective at an aggregate level.

4. **Minimum size product strategies**
   Different product strategies with one or more associated product mandates may be positioned within an asset cluster. The basic principle is that each asset cluster can consist of a maximum of five underlying product strategies, whereby these product strategies must have a clearly demonstrable added value for the asset cluster and the overall investment portfolio. PMT opts for this principle because, in the context of the governance budget, the investment portfolio should not consist of too many fragmented strategies.

B. Portfolio governance

1. **Own objective is guiding principle**
   PMT pursues its own objective, and reviews its performance against that objective. It does not allow itself to be distracted from executing its policy by ‘peer group pressure’.

2. **Investment horizon**
   PMT takes the long-term nature of its liabilities as a basis and therefore uses a longer-term horizon for its investments. Circumstances may arise in the short term, however, which may put pressure on its longer-term objective. PMT is aware of the opposing forces of shorter-term requirements and longer-term objectives and therefore seeks a balanced approach to developing its investment policy

3. **ALM analyses**
   PMT uses ALM analyses as a test tool in the guidance of its portfolio.

4. **Assessment of the portfolio**
   The portfolio is periodically tested against the excess return target. Since predicting shorter-term market fluctuations does not constitute an appropriate basis for a prudent investment policy, PMT pursues no tactical policy.

5. **Basic attitude: “the portfolio is good, unless”**
   Investing is not an exact science. Small shifts in the portfolio can rarely demonstrably lead to a substantially different result in advance. That is why the basic attitude is that the existing (cluster) composition is able to achieve the asset cluster objective until the opposite is made plausible. The burden of proof to change the portfolio is therefore high.

6. **Management and governance of the five investments levels**
   PMT defines for each of the five investment levels the way it is managed and the governance that applies. PMT believes that a structured portfolio governance approach is an appropriate way to control its complexity and ensure that the right issues are addressed at each level, allowing a clear division of responsibilities. The portfolio assessment policy lays down further details on process.
   The cascading of the different levels is defined in such a way that a hierarchy exists, especially with regard to the risk profile; level 1 prevails over level 2, level 2 over level 3.

Level 1

Guidance

At the highest level, PMT manages on the basis of allocations to the matching portfolio and return portfolio, and the size of the interest rate hedge, using a specific bandwidth for both. These strategic choices are linked directly to the objective and are driven by changes in the objective (or its feasibility), PMT’s financial position and buffer, the pension contract, population demographics, legislation, regulatory framework, and similar factors.

Governance

At Level 1, the board is responsible for policy-making and the Investment Committee for rendering advice and policy implementation. In practical terms, this means that the Investment Committee must:
- keep the portfolio within the bandwidths set by the board;
- return the portfolio to the bandwidths set by the board if they are exceeded, within one month after the Investment Committee meeting in which the exceedance existed for the first time.

If bandwidths are exceeded, consultations will be held and a decision made. If bandwidths are exceeded, the default action will be to move back to the middle of the bandwidth. If the Investment Committee initiates a move within the bandwidth, it must be towards the middle of the bandwidth. If, due to circumstances, the move is not steered towards the middle of the bandwidth, the board should decide on this, following the Investment Committee’s advice.

The board sets out the policy choices made in the annual investment plans. The board may vary from those in separate decisions. The Investment Committee decides on how to perform its governance duties within the space allowed for policy implementation in separate decisions.

Level 2

Guidance

At Level 2, PMT manages the return portfolio on the basis of allocations to asset clusters, including bandwidths. PMT defines strategic characteristics for asset clusters, including objectives and expected returns after costs and risk. In the asset clusters, the ranges for the underlying product strategies are constructed in such a way that they are in line with the higher-level risk profiles.
The matching portfolio has an excess return target of 0%. PMT manages the matching portfolio based on the risk sources interest rate and credit; for each mandate both components are present to some degree. The way PMT manages the currency hedge is determined by the strategic characteristics of the asset clusters and in a strategy document and mandate. The main factor to be assessed at this level is the extent to which asset clusters meet their objectives. This is done on the basis of risk premiums, economic conditions, and financial markets. The findings are used to formulate preferences in terms of the weights of asset clusters.

Governance

The board is responsible for policy-making and the Investment Committee for rendering advice and policy implementation. In practical terms, this means that the Investment Committee must:

- keep the portfolio within the bandwidths set by the board;
- reduce the portfolio to the bandwidths when exceeded, within one month after the Investment Committee meeting in which the exceedance existed for the first time.

If bandwidths are exceeded, consultations will be held and a decision made. If bandwidths are exceeded, the default action will be to move back to the middle of the bandwidth. If the Investment Committee initiates a move within the bandwidth, it must be towards the middle of the bandwidth. If, due to circumstances, the move is not steered towards the middle of the bandwidth, the board should decide on this, following the Investment Committee's advice. When making the move, the risk profile of the portfolio at level 1 is also taken into account.

The board sets out the policy choices made in the annual investment plans. The board may vary from those in separate decisions. The Investment Committee decides on how to perform its governance duties within the space allowed for policy implementation in separate decisions.

Level 3

Guidance

Level 3 involves filling the asset clusters with product strategies that reflect the strategic characteristics of the asset clusters the most, and allocating funds to these product strategies. This involves providing guidance by means of the detailed contents of the strategy documents and mandates. These include, amongst other things, the benchmark, universe, choice of active/passive, use of instruments, costs, risk control, etc. The strategy documents and mandates are driven by economic conditions, financial markets, and other external factors that impact the effective design of mandates.

Decisions are driven by the extent to which mandates meet the cluster characteristics. This is done on the basis of risk premiums, economic conditions, and financial markets.

Governance

The Investment Committee is the policy-setting and policy-executing body at this level. The dual role is mitigated by the board at level 2 defining the characteristics of the asset clusters. Based on these characteristics, the Investment Committee determines the asset clusters, which include the underlying product strategies and underlying mandates and how these are allocated. There are bandwidths for each product strategy.

If the bandwidth is exceeded at level 3, consultation and decision-making takes place in the Investment Committee. As there are illiquid products within the return clusters, it is not always possible and/or desirable to steer towards the middle of the bandwidth (in contrast to levels 1 and 2, where the default policy is to steer towards the middle of the bandwidth). In specific cases, it is allowed to move away from the middle of the bandwidth (at level 3), under the condition that the portfolio at levels 1 and 2 is steered towards the middle of the bandwidth. In specific cases, it is also possible to temporarily accept an overshooting at level 3. In such case, the portfolio at levels 1 and 2 must be positioned within bandwidths.

If the portfolio remains outside the bandwidths (and thus the risk appetite) at level 3, causing the portfolio's return/risk profile to deviate for a longer period of time, for instance because it cannot be adjusted (sufficiently) due to illiquid investments, the Board decides, following advice from the Investment Committee.

The Investment Committee adopts the strategy documents. The adoption of the underlying mandates is mandated to the Executive Office, unless it concerns a new mandate, in which case the Investment Committee decides. Proposals for this are put forward by the Fiduciary Platform pf PMT (FPP) (see further section Cooperation with MN) as an advisory body. PMT may have these proposals reviewed by a third party. MN executes the policies and is responsible for implementing the mandates within the given guidelines.

There is an exception for new illiquid mandates and new liquid mandates that have major reputation aspects: these are submitted for approval to the board. Decisions made are recorded in the strategy documents for the asset clusters, the annual investment plan, policy documents, and proposals to the Investment Committee and board.

Level 4

Guidance

Level 4 involves providing guidance by selecting, appointing and dismissing individual asset managers. This is done by entering into and terminating investment management agreements (IMAs). Guidance is also provided by allocating funds to and withdrawing funds from the asset managers appointed. Decisions are driven by the suitability of individual asset managers to play a role in implementing the mandates.

Governance

The Investment Committee determines the policy for selecting and monitoring asset managers. As a general rule, MN selects asset managers within the mandates (this must fit within the guidelines issued by the PMT in the selection and monitoring policy and PMT's outsourcing policy).
An exception applies to internal asset managers at MN, which is decided by the Investment Committee. In the case of a proposal to appoint an internal asset manager at MN, two separate recommendations are always submitted to the Investment Committee, one on behalf of the executive office and one on behalf of MN.

A second exception applies to specific manager selection and investments within illiquid product strategies, which are decided by the Investment Committee. These are further detailed in the Board's by-laws. This stipulates that the Investment Committee, through a mandate, has mandated the board office to decide on these specific manager selection and investments within illiquid mandates, provided that two conditions are met:

- The proposal is fully within the mandate
- There are no sensitive aspects or reputation aspects, whereby the following may be an indication of this: MN's risk opinion, an unsatisfactory response by MN to the questions of the executive office and / or lack of agreement within the executive office between the Chief Investment Officer and the Manager Integrated Risk Management.

If one of the conditions is not met, the proposal will go to the Investment Committee. If the Investment Committee is of the opinion that the reputation risk for PMT is that high that it cannot decide on this independently, the Investment Committee will submit the proposal to the board

Level 5

Guidance

Level 5 involves managing a portfolio consisting of underlying investments within the terms of the IMA by the appointed asset manager.

Governance

The Investment Committee has adopted mandates, on the basis of which individual asset managers have been appointed by MN via IMAs. The appointed asset manager manages the investments in the relevant portfolio within the boundaries of the IMA. MN monitors whether the portfolio is in line with the IMA.

C. Investment products

1. **Costs in relation to added value**
   PMT chooses to have as few links in the investment management chain as possible. It therefore prefers transparent and physical assets over synthetic instruments and mandates with built-in leverage or tax optimisation.

2. **Use of derivatives**
   PMT allows the use of derivatives if they contribute to mitigating its risk profile or enabling efficient and effective portfolio management. PMT is cautious in using non-linear derivatives.

3. **Preference for efficient beta implementation**
   For return, explainability and manageability purposes, PMT, at mandate level, concentrates on earning the risk premiums as efficiently as possible. Starting point is the universe of an asset class, which is then tested against the beliefs and other conditions PMT sets. The guiding principle here is to take calculated, explainable and manageable risks that are sufficiently compensated for.

4. **Implementation at mandate level**
   PMT believes that implementation at mandate level should be based on efficient portfolio management, whilst reducing any unnecessary complexity, improving transparency and explainability, and cost awareness.

5. **Preference for own mandates**
   PMT is convinced that it is in its interest to maintain ownership of the conditions of management, costs, transparency and voting rights wherever possible and to be able to implement the exclusion policy. That is why PMT invests preferentially through discretionary mandates and not through funds. This means that investment titles are in the name of PMT. The possibility of discretionary investments is weighed against the (transaction) costs and operational feasibility. Exceptions are some illiquid mandates such as private equity and international property, for which this method of investing is not possible for PMT.

6. **Asset manager selection**
   In all cases, asset managers are selected with a view to protecting the interests of PMT's members. They are selected primarily on the basis of their quality and expected financial performance. Financial performance means achieving the best possible returns at suitable risk levels, net of expenses. Best possible returns mean returns that meet the specified objective.

7. **Illiquid mandates**
   In the case of the intended selection of an asset manager or investments within an illiquid mandate, the Investment Committee or the executive office must approve the selection or investment by approving an investment proposal (see earlier under 'Management and governance of the five investment levels').

8. **Monitoring of asset managers**
   PMT arranges for its asset managers to be monitored. It has defined criteria for the monitoring process, specifically with regard to performance and risk data. Asset managers are contacted frequently for monitoring purposes. The information yielded by this process will be included in the quarterly and annual reports presented to PMT.

D. Costs

1. **Costs in relation to added value**
   The control of costs is an important theme for PMT. This does not mean that the costs should be as low as possible, but that the costs are in proportion to the added value of the expected returns.

2. **Performance fees**
   PMT is not in favor of performance fees and they are therefore preferably not allowed. PMT will only allow the use of performance fees if an illiquid investment category, which PMT needs to meet its targets, is not accessible without accepting performance fees. If PMT allows performance fees, this is only possible under the following conditions.

- The performance fee is always capped.
- Where a performance fee is granted, a mechanism must also exist whereby the relevant asset manager also shares in bad results. This can be done, for example, by requiring a fund manager to invest in the same investment as PMT and thus itself be affected by a bad result of this investment.

Performance fees also have to be in proportion to the added value of the expected revenues.

3. **Costs are an integral part of all investment choices**
   With every investment choice, the associated costs are included in full in the consideration. This concerns both transaction costs and management costs. If financial result is a criterion for an investment choice, financial result is defined as after deduction of costs. In the case of illiquid investments that have a large share of the total costs for PMT, the maximum cost level has to match the added value of the asset class and the intensity of the management in that asset class.

4. **Monitoring and control of costs**
   PMT checks afterwards to what extent the realized costs deviate from the projected costs and adjusts to this in the investment plan in the following year. PMT prepares an annual cost overview for this purpose. PMT annually tests its asset management costs against a benchmark to gain insight into the total costs, the costs per asset class, and to analyze where improvement is possible.

E. Tax

1. **Interest of the participants**
   The interest of the participants is the primary consideration. This implies that PMT wants to achieve good returns, and related to this is willing to pay its 'fair share' of tax. However, not more than necessary.

2. **Comply with rules and regulations**
   PMT complies with the rules and regulations in force as well as with relevant international guidelines (e.g. the OECD guidelines) at all times. In this respect, PMT anticipates future rules, regulations and social developments. When requested, based on legal grounds, PMT will offer full disclosure to the authorities. PMT ensures that this also applies to their asset managers.

3. **Minimise erosion of returns**
   PMT minimises erosion of investment returns by taxation due to the application of structures which were needed to be able to invest through funds in underlying assets. PMT thus strives to approach the situation and tax ratio of a direct investment as much as possible.

4. **Fiscal structures**
   PMT invests through tax structures which have a logical and functional meaning in relation to investment and management. Managers who deviate from such a logical structure are obliged to substantiate their decision.

5. **Jurisdictions**
   PMT uses transparent jurisdictions. This implies that PMT does not participate in investments which are fiscally structured through jurisdictions that are rated by OECD as 'Partially Compliant', 'Non-Compliant' or which are unrated.

6. **Transparency**
   PMT is transparent about its position with regard to tax matters and has an open line of communication about its tax policy.

7. **Commitment of asset managers**
   PMT asks its asset managers to commit to the tax principals of PMT.

8. **Service providers**
   PMT expects its services providers to act in line with the interest and wishes of PMT in tax matters.

F. Responsible investing

PMT believes that responsible investment is in line with the financial objective. Responsible investing contributes to a good estimate of the long-term sustainability of investments. That is why PMT wants to take into account ESG factors (Environmental, Social, Governance) in all investments. PMT also wants to take into account the social effects of investments. This means that PMT avoids negative effects of investments as much as possible and looks for opportunities to realize a positive social impact with investments. PMT wants to contribute to economic stability and sustainable economic growth.

The following policy beliefs guide the execution of responsible investment and establish a link between the strategic ambitions and the context in which responsible investment is carried out, the themes they focus on and the instruments that secure the issues in the investments.

Strategic ambitions and context
Responsible investment at PMT does not stand alone, but is at the service of strategic ambitions and takes place within a broader context. These policy beliefs deal with those strategic ambitions and contexts and their significance for responsible investment at PMT

1. **Connection with the members**
   PMT sets its responsible investment ambitions in a way that resonates with its employees and employers in the metal and engineering sector. To this end, PMT periodically conducts participant and employer surveys and incorporates the results in the design of the responsible investment policy. The opinion of the members is reflected, among other things, in the themes on which PMT wants to exert a positive impact, the themes that are emphasized in the dialogue policy and the handling of the subject of climate change and energy transition. PMT believes that the metal and engineering sector – in the Netherlands and abroad – can make a difference when it comes to new energy technologies and a different way of working.

2. **Conscious and explainable**
   PMT wants to invest consciously. This means that PMT wants to know where it invests and can explain why. With this, PMT also wants to be open about the investments that PMT does. This also means PMT wants to motivate the choices regarding responsible investment in a clear and verifiable way.

3. **Integral part**
   PMT approaches responsible investment as an integral part of the investment process. This means that responsible investment is applied throughout the investment chain. In every strategy document, mandate and investment proposal, responsible investment is addressed. In the selection and monitoring of asset managers, integration of material ESG risks and opportunities is taken into account.

   Because PMT believes that responsible investment contributes to a good estimate of the long-term sustainability of investments, PMT wants to include information about ESG factors in investment decisions. This 'ESG integration' means that PMT wants to involve relevant ESG information in the preparation of investment strategies and mandates, in the selection and monitoring of external asset managers and to involve this information in the active investment decisions that are taken.

4. **In line with international conventions**
   PMT respects the Universal Declaration of Human Rights and related treaties. It also applies the core conventions of the International Labor Organization of the United Nations (ILO). For example, PMT uses the engagement policy for freedom of trade union and the right to collective bargaining, but also for the elimination of all forms of forced labour, child labour and labour discrimination. PMT wants to act in line with the Paris climate agreement. PMT wants companies to adhere to the OECD Guidelines for Multinational Enterprises. PMT is a signatory of the Principles for Responsible Investment (PRI) of the United Nations. PMT is a co-signatory to the International Socially Responsible Investment Agreement (Dutch; IMVB convenant). The IMVB Agreement includes agreements on embedding OECD guidelines and UN Guiding Principles on Business and Human Rights in pension funds' policies, outsourcing relationships and monitoring and reporting on them.

Themes: ESG

The topics around responsible investment are dynamic. ESG factors are the themes that summarize what responsible investment means according to PMT. These three themes are well explained below. How the themes are then operationalized in the investments of PMT follows under the heading ‘instruments’.

5. Environment and climate

PMT provides an affordable, sustainable and as much as possible inflation-linked pension for all participants. A sustainable pension also means that the pension can be enjoyed in a healthy world. This means that PMT wants to take into account the impact that investments have on the environment. But it also means that PMT monitors the value of investments in a changing climate. PMT believes that the metalworking and mechanical engineering sector – both in the Netherlands and abroad – can make the difference when it comes to new energy technologies and a different way of working. PMT wants to contribute to that.

To implement these principles on climate, PMT has drawn up action plans for the relevant investment categories. In short, the policy means that PMT strives for a portfolio in which all investments make an appropriate contribution to the Paris Agreement, without excluding sectors with potential for change in advance. The ultimate ambition is to reduce the emissions of the total investment portfolio to net zero by 2050, thereby also contributing to change in the real economy. In this way, PMT hopes to contribute to the goal of limiting global warming to no more than 1.5 degrees. PMT annually measures the carbon footprint of the equity portfolio and actively looks at the rest of the investment portfolio, with the goal of reducing the carbon footprint. PMT has formulated reduction targets for the equity portfolio for 2030 for several sectors. These are the most CO_2 intensive sectors: oil and gas; utilities; aviation; aluminum; automotive; cement; and steel. PMT also tries to reduce the CO_2 emissions of the companies it invests in through its dialogue policy. In doing so, PMT primarily opts for dialogue and does not directly exclude companies with high CO_2 emissions. With each product strategy review, PMT examines how climate risks can be mitigated in the portfolio and how to contribute to the energy transition. In addition to adjusting the benchmark on the basis of ESG criteria, PMT considers it important, especially in actively managed portfolios, that when selecting and monitoring managers, attention is paid to climate risks and the contribution the manager can/will make to the energy transition.

In addition to climate change, the E of Environment consists of numerous other issues, such as pollution and the use of raw materials and scarcity. PMT wants to be aware of these developments, opportunities and risks. First of all to assess the consequences for investments, but also to be aware of the consequences of investments on these themes.

6. People, law and society (Social)

The theme ‘people & law’ covers, among other things, the subjects labour rights, health and safety and human rights. It is important not only that people around the world can exercise their work safely and healthily, but that they also have the right to a decent salary and that they do not have to be afraid to address abuses on and around the work floor. The metalworking and mechanical engineering sector knows better than anyone that health and safety at work are important topics and PMT wants to show this in its investment policy.

The manufacturing industry faces the major challenge of achieving better compliance with labour standards for the entire supply chain. Growing transparency and rapidly changing technological possibilities require large labour investments. In addition, PMT continues to ask companies to report on the impact of their own activities on human rights in the region. PMT not only appeals to companies, but also supports cooperation between industry, government and civil society organizations to increase support and efficiency.

7. Governance

PMT believes that boards of directors and executive boards of companies must strive for good governance. A reliable government is also important for countries where PMT lends money to. First of all, because sound and verifiable management provides better investment results in the longer term. But also because PMT believes that remuneration structures must be justified. This is, among other things, laid down in the Remuneration Policy of PMT. PMT also has its influence on shareholders’ meetings on this point.

Instruments
In order to operationalize the themes E, S and G and the topics covered, PMT works with various instruments. These are used according to the theme. PMT choses which instruments are used, taking into account the effectiveness of the instrument for the theme in question.

8. Exclusion
As a responsible investor, PMT tries to bring about improvement at companies where this is needed, by using its shareholder rights and by engaging in dialogue. There are also a number of companies that are part of sectors that PMT does not want to invest in. PMT does not invest in (1) companies that make products that violate international treaties signed by the Netherlands, or (2) companies whose products violate PMT's principles. PMT may also exclude companies (3) on the basis of an unsuccessful dialogue (this tool is described in more detail in the next section 'active share ownership'). Finally, PMT applies a country exclusion policy based on compliance with international treaties to which the Netherlands is a party. On a quarterly basis, PMT uses criteria to determine whether EU and/or UN sanctions will lead to the exclusion of a particular country. These criteria are included in the exclusion policy.

9. Active share ownership
PMT is an active shareholder. PMT looks closely at how the companies we invest in deal with the ESG criteria. If we think it can be done better, we address companies accordingly. PMT does this in order to better assess the risks of companies and, where possible, to reduce them. We think in advance about the themes we are discussing with a company and distinguish between thematic engagement aimed at achieving strategic ESG goals and, on the other hand, engagement based on controversies and incidents.

Active share ownership also means that PMT votes at shareholders' meetings at home and abroad – if necessary – participates in legal proceedings to recover financial loss. The active shareholding also means that PMT wants to enter into dialogue with governments and regulators about policy and regulations.

10. Sustainable Development Investments/Impact investments
Where possible, PMT wants not only to try to avoid negative consequences of investments, but to invest in solutions to social problems while maintaining returns.

PMT wants its investments to contribute to the United Nations' Sustainable Development Goals (SDGs), or Sustainable Development Investments (SDIs). As a general guideline, PMT wants to keep the proportion of SDIs in the portfolio at least the same, year on year, and preferably increase this proportion.

Some of the SDIs are referred to as 'impact investments'. Impact investments are investments where the intention to achieve positive, measurable impact in terms of environmental and social factors, is combined with a financial return. They involve both solutions to and prevention of social problems. The five themes PMT has chosen to make an impact on through investments are: energy transition (including energy storage), circular economy, innovation in Europe, affordable housing and healthcare.

G. Dutch-based assets

1. Positive stance
PMT takes a positive stance towards Dutch-based assets. This is because its members have ties with the Netherlands, both during the period when pensions are accrued and when they are in payment. The extent of this positive stance will therefore constantly need to be reviewed against the members' interests. Dutch-based assets will also contribute to fulfilling PMT's social responsibility.

2. Preferences
The employers and employees who constitute PMT's rank and file require a healthy Dutch economy and a flourishing business community (private sector) including jobs. PMT's approach is therefore to invest in the private sector.[1] Given the background of its members, PMT prefers to invest in:
- Innovation; encouraging and increasing access to finance for greater innovation strength within The Netherlands (broader than solely its own sector);

1 Investments in companies from a pension fund's own sector are legally limited to a maximum of 10% of the total investment portfolio (article 135 PW). Given the composition of the underlying companies and the design of the underlying mandates, this does not occur.

- Energy and infrastructure projects, which metalworking and mechanical engineering businesses help construct and/or maintain.

3. **Visibility**
PMT will allow its investments in Dutch-based assets to be publicised in a general sense. As regards individual investments in Dutch-based companies, however, PMT does not wish to have a direct and visible investment relationship, especially if the company is a PMT member.

4. **Place within the investment framework and system**
PMT is aware that it uses a top-down investment approach, in which Dutch-based investment propositions are not always a natural phenomenon, due in part to their novelty and limited size. This does not mean to say that they are not suitable investments. PMT therefore assesses propositions on their individual merits on the basis of this investment framework.

The following criteria apply to all investments:
- The asset must fit in with the asset cluster in terms of its characteristics
- The risk/return profile must be justifiable
- The asset manager must meet the usual quality standards
- Manageability must meet the usual standards

The normal guidelines and preferences may be varied from as follows:
- The requirement that each asset cluster can consist of up to five underlying product strategies. The investment framework already provides for an exception, if there is good justification for it. That is present in this case: the ability to convert the positive attitude toward Dutch investments into actual investments.
- The preference for investing on the basis of in-house mandates rather than investment funds – As far as Dutch-based assets are concerned, investment funds are in many cases good vehicles, if only to avoid direct investment relationships and to forge alliance with other pension funds.
- The requirement of having a multi-year track record – Given the novelty of many propositions, there will be no track record and the risk/return profile will need to be assessed in a different way.

5. **Decision-making**
The Investment Committee may take decisions on Dutch-based investment propositions within the framework provided. If it feels that the proposition is highly sensitive from a social or political perspective, the Investment Committee will leave the decision to the board.

H. Transparency

1. **Transparency as a standard**
PMT believes that transparency should be business as usual, unless it would clearly have adverse consequences. This guiding principle arises from the fact that PMT invests contributions paid in by employers and employees. PMT wants to account for the costs incurred and show how the investments will help build a pension.

2. **Transparent policy**
PMT provides information about the policy frameworks it uses when investing pension contributions by, for example, making this strategic investment framework available to the general public.

3. **Transparent implementation**
PMT provides information about the implementation of its investment policy through performance reporting.

4. **Transparency about responsible investing**
PMT provides information about its responsible investment policy and policy implementation.

5. **Transparency about costs**
PMT provides information about asset management costs by adhering to the Recommendations on Administrative Costs issued by the Federation of the Dutch Pension Funds *(Pensioenfederatie)*.

6. **Transparency about portfolio assets**
   PMT provides information about individual portfolio assets. Possible exceptions, because of any adverse consequences, may arise from duties of confidentiality, reputation or liability risk, competitive sensitivity, or transparency costs.

7. **Transparency about history**
   PMT provides information about the historical development of the fund by making public the annual contributions, paid-out benefits and investment returns since its inception in 1948.

I. Cooperation with MN

1. **Fiduciary management**
   PMT has appointed MN to act as its fiduciary manager. PMT regards MN as a strategic partner, However, PMT has ultimate and decisive responsibility.

2. **PMT's Fiduciary Platform**
   The board considers it important that there is a link between the Investments Committee and the fiduciary manager. To this end, the executive office staff organizes a platform with the permanent contact points of the fiduciary manager. This platform has as primary tasks:
   - Preparing the meeting documents for the Investments Committee.
   - Supervising the implementation of decisions by the Investments Committee. The Investments Committee may delegate further decision-making on aspects of the execution to the executive office.
   - Reporting on the portfolio and implementation of decisions of the Investments Committee.

   Within this platform, the executive office staff is ultimately responsible for the submission of meeting documents to both the Investments Committee and the board. The aim is to submit to the Investment Committee the best possible advice that suits PMT. If the executive office and MN differ in their opinions, two different recommendations will be submitted. For investment proposals (level 4), subjects that directly affect MN in their implementation or subjects that directly affect PMT in its implementation, a separate recommendation will always be submitted on behalf of the executive office.

3. **MN attends Investment Committee meetings**
   The services MN provides will benefit from its broad-based knowledge of PMT. Because it attends Investment Committee meetings, MN is better able to draw up documents that match PMT.

4. **Research and development**
   PMT regards MN as its primary partner for researching and developing investment expertise for pension purposes. MN develops and keeps its expertise up to date through its activities in financial markets, where it is trading on behalf of PMT, through its contacts with external managers, and by sharing knowledge with its peers, the academic world, and in-house research.

5. **Extensive contacts with MN**
   In order to make expertise available to the Investment Committee, PMT maintains contact with a wide range of MN staff so as to keep in touch with the various disciplines at MN that are involved in PMT's investment process. Contacts run primarily through the executive office and MN's Fiduciary Advice unit.

6. **Asset manager selection and monitoring**
   In all cases, asset managers are selected with a view to the interests of PMT's members. They are selected primarily on the basis of their quality and expected financial performance. Financial performance means achieving the best possible returns at suitable risk levels, net of expenses; best possible returns meaning returns that meet the specified objective. MN may also select in-house asset managers. This is known as internal management. The choice for a particular asset manager may in no event be driven by the interests of MN or any of its staff. The Investment Committee decides on internal management proposals.

4. Risk management beliefs

The risk management beliefs set out how the investment portfolio's risk profile is reviewed, and adjusted.

1. **Statement of risk appetite**
   Risk appetite refers to PMT's consistent and predictable view of investment management risks, and the way in which it deals with these risks. PMT's risk appetite in terms of investment management is based on two related perspectives:

   - The investment policy directs the way in which PMT goes about achieving its financial ambition. Given that the contributions are defined, PMT's risk appetite is reflected primarily in the trade-off between ambition and risk. The choices made in this respect are set out and substantiated in the document 'Details of strategic asset mix and risk appetite'. This document states amongst others that PMT needs an excess return of 1.5% in order to achieve its ambition. To realize this excess return a strategic asset mix is needed with a relatively high risk profile.
   - This risk profile requires a high level of risk management. The way in which PMT conceptually shapes risk management is included in this document. Information (part of which is quantitative in nature) on how the framework is implemented is given in the document 'Details of strategic asset mix and risk appetite'. It discusses the requirements to be met by the matching portfolio, the use of cluster characteristics in the return portfolio, currency policy, the use of bandwidths, etc.

2. **Purpose of risk management**
   PMT's risk management is designed to achieve the objective of generating the required excess returns within the framework of a high level of risk control.

3. **Role obligations**
   PMT will assess risks versus liabilities, where appropriate. These may involve its nominal or real liabilities, depending on the question to be addressed.

4. **No more risk than necessary**
   PMT aims to achieve the lowest possible risk when realising the required excess return objective, while considering (a combination of) different kinds of risk, such as economic, financial and market risk, implementation risk, premium risk, etc.

5. **Risks must be rewarded**
   PMT will only take risks if it reasonably expects those risks to be rewarded by appropriate returns.

6. **Diversification**
   In order to mitigate its risk exposure, PMT chooses to diversify its allocations across different risk drivers with low correlations.

7. **Basis of risk management**
   For every level of return required, a portfolio construction can be devised that produces the least risk. This is how PMT controls its risk exposure.

8. **Restrictions on size of illiquid assets**
   PMT allows illiquid assets in both the matching and return portfolio. PMT assesses whether it can benefit from an illiquidity premium by assessing the added value of illiquid investments over comparable liquid investments. In addition, PMT assesses whether the total size of illiquid assets is in line with the investment horizon, the strategic investment framework and the liquidity needs arising from short-term risks.

9. **Risk indicators**
   PMT monitors the following risk indicators as a minimum:
   - Balance sheet risk
   - Required capital (VEV)
   - Long-term pension performance
   - Level of interest rate hedge (level, slope, and curvature of the yield curve)

- Credit risk exposure within the matching portfolio
- Currency risk (non-euro exposure) per cluster
- Level of cash as defined in the Treasury Protocol

If bandwidths for a risk indicator are exceeded, PMT will evaluate how to manage that situation by applying the portfolio assessment policy. In this policy the principle of bringing the indicator back to the middle of the bandwidth is the starting point.

10. Risk scenarios based on economic conditions

In addition to risk indicators, PMT also monitors potential risk scenarios arising from economic conditions through quarterly dashboards and – historical – stress tests.

11. Risk scenarios based on the real, social and political environment

PMT monitors ESG risks: the risks of a changing world on the investments of PMT. This includes in any case financial damage due to regulation or other government intervention, financial risk as a result of climate change and disruptive economic changes. In addition, the policy beliefs about responsible investment further elaborate on how PMT deals with ESG risks.

12. Definition of balance sheet risk

To monitor balance sheet risk, PMT looks at the volatility of its assets versus its liabilities (tracking error), based on historical data.

13. Definition of interest rate hedge

PMT defines the interest rate hedge primarily on the basis of market rates.

14. Definition of interest rate risk

Interest rate risk is defined as 'DV01': the change in euro value for a 0.01% fall in interest rates. The interest rate risk is decomposed in level, slope and curvature of the yield curve.

15. Definition of credit risk in the matching portfolio

Credit risk in the matching portfolio is defined by the Duration Times Spread (DTS) measure.

16. Crisis policy

Only in very exceptional crisis situations may PMT decide to vary from the policy adopted and the regular meeting schedules. If an additional meeting is held in such a situation, the default decision will be not to change standing policy. This is to prevent any rash decisions from being taken, because 'something' needs to be done. PMT has set out further procedural arrangements to deal with crisis situations in its financial crisis plan and internal rules and regulations.

PMT302 02.23