



Annual Report 2018

Summary



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Foreword

Greater risk of pension cuts

Unfortunately, the strong improvement in PME's financial position reported in 2017 did not continue through 2018. PME's funding ratio remained fairly stable throughout the year. However, as share prices and interest rates fell in December 2018, its actual funding ratio declined to 97.7% at 31 December 2018 (2017: 101.6%). The policy funding ratio (12-month average) improved to 101.3% (2017:100.1%). We regret to say that there is now a greater risk of pensions having to be cut in 2020. Whether this will, in fact, be done depends on how our funding ratio evolves in 2019. It may well remain unclear until the very last moment as to whether and, if so, by how much pensions will need to be cut in order for the funding ratio to return to a level of 104.3%. Nonetheless, preparations for a pension cut are under way. This will allow us - where necessary - to provide participants with clear information should that moment come.

Disappointment at absence of national pension agreement

We are disappointed at the failure by government and the trade unions and employer organisations ("social partners") to reach a national pension agreement in 2018. In November, an agreement seemed to be within reach when the Prime Minister, Mark Rutte, joined the Social Affairs Minister, Wouter Koolmees, for talks with the social partners. In the end, those talks collapsed. On February 1 2019 the Social Affairs Minister sent a lengthy letter to the Dutch House of Representatives, also expressing his disappointment and impatience. The letter met with a lot of criticism from the trade unions and opposition parties. We call on the social partners and government to get back to the table as quickly as possible because pension reforms necessarily require broad-based endorsement.

Sustainability embedded in policy and asset management

In 2018 we focused much of our attention on socially responsible investment (SRI). Pension funds are increasingly being called on by different sections of society to use their investments to promote a sustainable world. PME has been taking this issue to heart for many years now. In 2018 we again asked our participants and pensioners for their views. Starting this year, we will not be publishing a separate SRI report and instead will incorporate the information into our annual report.

Closer collaboration with PMT

Although we still consider a merger with 'the other pension fund' - the Pension Fund for the Metal & Engineering Industry (PMT) - to be an attractive future scenario, we do not think a merger is on the cards in the short term. That said, PME and PMT stepped up their collaboration in 2018. We will continue that line in 2019. This means that the funds' administrative offices and management teams will be working more closely together.

Towards concrete improvements in the administration of pensions

In late 2018 we signed new pension administration and asset management agreements with MN. Modernised services, greater agility, and lower costs are strategically important to us. MN has committed itself to those goals, and we look forward to making joint strides over the coming period. We will of course continue to monitor progress with a critical eye. Clearly, the starting point for development and change within the MN organisation has improved. What is important now is that MN puts its plans in place and delivers concrete results. That is what we expect of MN and what employers and participants expect of us.

For and on behalf of the industry

At PME, we are proud of the technological industry that we work for and its innovative power. We believe it is important that employers, participants and pensioners feel connected with their pension fund and that we fight their corner. With this in mind, we redefined our mission, vision and goals in 2018 so as to cement our identity. The photograph on the front cover encapsulates the relationship between participants, the metal and engineering industry, and retirement. That is what we are here for.

The Hague, 25 April 2019

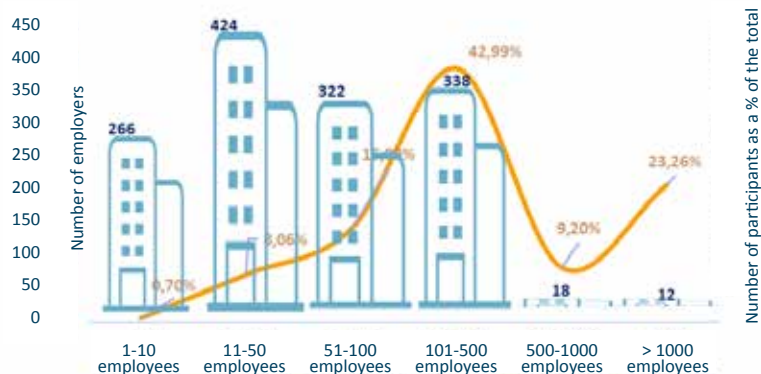
Franswillem Briët, independent chairman

Eric Uijen, executive board chairman

Profile of employers, participants, and pensioners

PME is the pension fund for employers and employees in the metal and engineering industry.

Our **1,380 employers** operate in machine construction, automotive, shipbuilding, electronics, and aircraft engineering and aerospace technology.



Although located across the Netherlands, they are mostly clustered in and around Eindhoven, Rotterdam, Amsterdam, Hengelo, Helmond, and Venlo. The industry is characterised by a small number of very large companies accounting for more than a quarter of our participants.



46.2

Average age of participants

In 2018 the active participants' average age was **46.2**. More men (86%) than women (14%) work in the industry.



75.4

Average age of pensioners



65.4

Average starting age of RP



106

Oldest pensioner

We paid retirement benefits to 110,729 pensioners. Their average age was **75.4**. In 2018 the average age at which people took their pension was **65.4**. Our oldest pensioner was **106**.



€ 8,515.-

Average RP benefit per year

The annual average retirement pension was **€ 8,515**.

The annual average surviving dependants' pension was **€ 4,319**.



€ 4,319.-

Average SD benefit per year

Key figures

At 31 December	2018	2017	2016	2015	2014
Employers	1,380	1,376	1,339	1,298	1,282
Active participants (1)	157,287	149,823	145,756	141,794	141,241
Deferred participants (2)	306,817	307,778	306,595	302,435	309,449
Pensioners (3)	167,223	167,548	166,419	165,715	167,298
Total participants (1+2+3)	631,327	625,149	618,770	609,944	617,988
Features of active participants					
Average salary (EUR)	46,200	45,400	45,200	45,000	44,200
Average age (years)	46.2	46.3	46.4	46.6	46.3
Average benefits paid (EUR)					
Retirement pensions	8,515	8,359	8,248	7,972	8,229
Partner's pensions	4,319	4,261	4,138	4,107	3,986
Orphans' pensions	2,007	1,986	1,873	1,846	1,867
Commutations	1,889	2,196	1,420	964	1,339
Financial position					
Total pension liabilities (A)	47,644	46,116	46,281	42,127	38,885
Assets included in funding ratio (B)	46,536	46,869	44,502	40,497	39,535
Funding ratio (C = B / A)	97.7%	101.6%	96.2%	96.1%	101.7%
Policy funding ratio	101.3%	100.1%	91.8%	97.6%	104.1%
Scheme features					
Retirement and partner's pension % contributions	23.0%	22.9%	23.2%	23.6%	24.1%
VPL transitional scheme % contributions	2.35%	2.87%	2.91%	2.96%	3.00%
Salary cap (EUR)	73,711	72,222	70,416	70,000	70,792
Maximum wage (EUR)	105,075	103,317	101,519	100,000	N/A
State pension offset (EUR)	14,704	14,904	15,104	15,304	15,554
Administration fees					
Pension administration fees per participant	120	132	133	126	113
- including VAT	19	20	21	13	-
Asset management fees (basis points)	37	35	39	40	40
Portfolio construction (%)					
Property	4.7%	4.4%	3.4%	5.0%	5.4%
Shares	33.8%	37.3%	40.1%	37.0%	35.2%
Fixed-income	59.9%	56.8%	55.1%	54.6%	57.6%
Other investments	1.6%	1.5%	1.4%	3.4%	1.8%
Total assets invested	100.0%	100.0%	100.0%	100.0%	100.0%
Return on investments (%)					
Property	10.7%	6.1%	9.1%	12.1%	9.0%
Shares	(6.9%)	14.8%	10.0%	4.2%	11.5%
Fixed-income	1.7%	(2.0%)	9.9%	(1.9%)	22.6%
Other investments	(11.1%)	(1.5%)	15.7%	(4.4%)	8.0%
Return on total assets invested					
Total return	(0.9%)	4.7%	10.3%	1.0%	17.8%

Mission, vision, and goals

Mission

A good pension for people working in the metal and electrical engineering industry. One that fits their individual circumstances and retirement goals. That is what we are working to ensure every day.

We set great store by providing personal support. We help participants make the best possible choices, in a clear language, and throughout their lives.

Vision

We believe that a pension is best arranged together. PME works for employers and employees within the industry. They share the pension costs and risks so everyone is better off.

The industry is home to builders, engineers, designers, and innovators. Together they contribute towards a better future. We are proud of that.

We work for an industry that operates in a competitive international environment. Cost control is a key requirement, for us as well as the industry. Providing a good and affordable pension improves the appeal of the engineering industry on the job market.

We are committed to ensuring a good future for everyone working in the metal and electrical engineering industry. To keep that future affordable we invest their pension money in such a way as to manage risks and ensure effective returns.

At the same time, we believe that a good future is about more than just money. That is why we invest not only to deliver financial returns, but also to make a positive impact on the climate, environment and working conditions worldwide. People will enjoy their pensions all the more in a world that is just, clean, sustainable and stable.

Goals

We are committed to achieving four goals

- a good pension
- an affordable pension
- a sustainable pension
- a personal pension.

Good pension

A good pension requires a team effort and solidarity. Sharing risks and costs will benefit everyone. If rules and laws stand in the way of a good pension, we will fight for improvement. We will do so, if possible, by joining forces with other pension funds and the social partners.

Affordable pension

We are very cost-aware and try to get as much pension as possible out of every euro we invest. The money paid in is invested to achieve the best possible return in the long term.

Sustainable pension

We firmly believe that a good pension is worth more in a world that is just and clean and future-proof. Through our investments we also seek to make a positive impact on the climate, environment and working conditions.

Personal pension

Everyone is different. That is why our tailor-made pensions come with many options. We help people make the right choices by giving them clear information and a personal service. Throughout their lives. We are touring the country on a daily basis to explain and help out, hosting events in canteens and packed auditoriums and on the shop floor. If necessary, we will go and sit at kitchen tables.

Financial position

The financial barometer of any pension fund is its **funding ratio**, i.e. its assets as a percentage of its pension liabilities. Those liabilities are measured on the basis of the interest-rate term structure (RTS) prescribed by the Dutch Central Bank (DNB). The funding ratio is a key indicator for policy decisions on interest-rate hedges or pension value transfers.

The **policy funding ratio** is the average of the funding ratios for the past twelve months. This ratio determines whether PME has a funding shortfall. The policy funding ratio is used for policy decisions on whether to increase or cut pensions.

Changes in funding ratios

Unfortunately, the improvement in PME's financial position reported in 2017 did not continue through 2018. At 31 December 2018, its actual funding ratio was 97.7% (31 December 2017: 101.6%). The policy funding ratio improved from 100.1% at year-end 2017 to 101.3% at year-end 2018

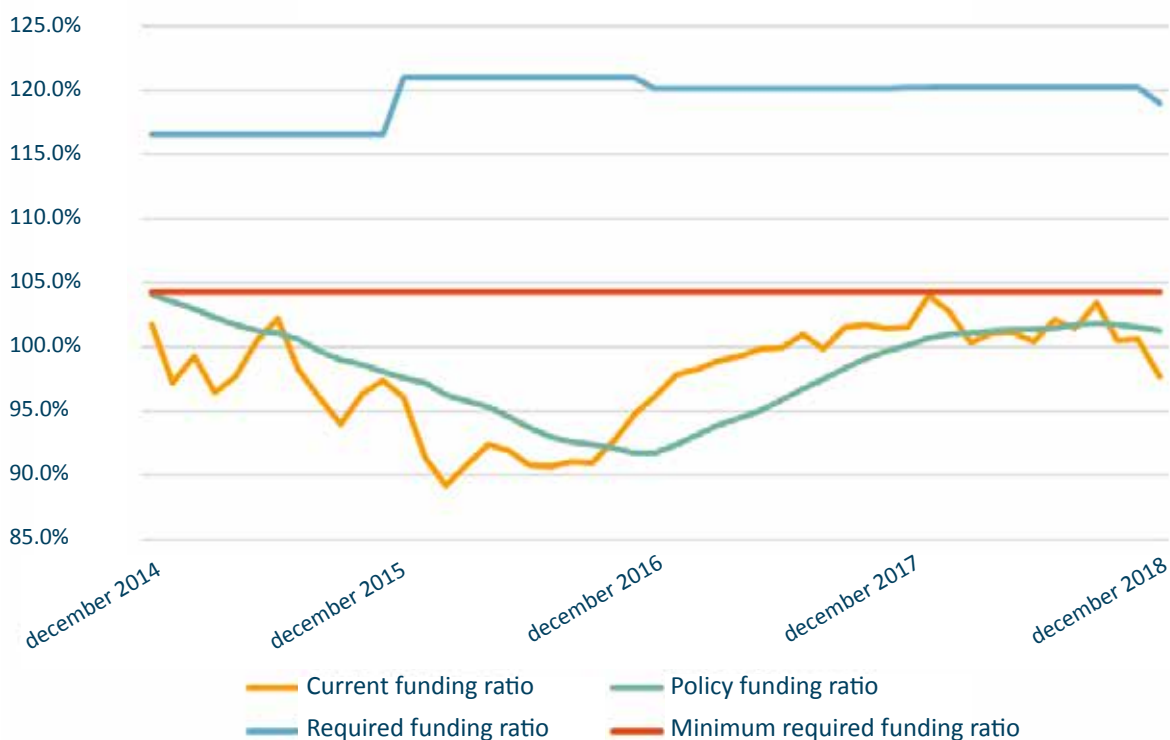
Required own funds are the funds PME needs to prevent its funding ratio from falling below 100% within one year, at a statutory confidence level of 97.5%.

The size of required own funds depends on a pension fund's risk profile, which in turn is based on its strategic investment policy. At 31 December 2018, PME's capital requirement was 19.0% (2017: 20.2%) and so the required funding ratio was 119%.

In addition to its actual funding ratio and policy funding ratio, a pension fund also has a real funding ratio. The real funding ratio indicates whether the pension fund will be able to increase pensions in the future in line with an expected price index. The increase is intended to maintain the purchasing power of pensions. A real funding ratio of 100% means that the pension fund has sufficient assets available to increase the nominal pensions in line with the expected price index. At 31 December 2018, PME's real funding ratio was 82.6% (2017: 81.2%).

PME publishes the monthly changes in its funding ratio and policy funding ratio on its website.

Funding ratio development 2014-2018



Asset management

At PME, we seek to provide our participants with the best possible, affordable pensions. To achieve that goal, we invest the money paid in because those contributions alone are not enough to fund current and future benefit payments.

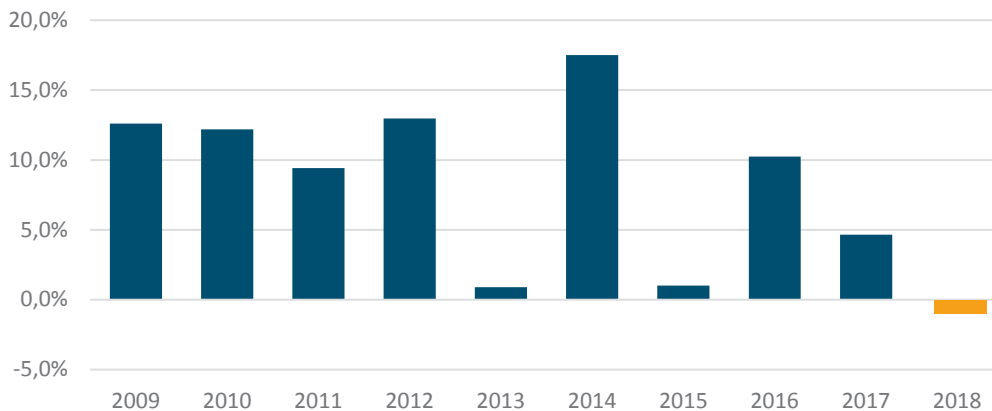
In selecting investments, we look at expected returns, risks and risk spreading, fees, and social factors.

2018

We ended the year with a return of -0.9%. The surplus return on investments as a percentage of liabilities was negative in 2018, driven mainly by lower interest rates and poor equity markets in the fourth quarter.

PME's average return on investments over the last ten years is 7.9%.

Returns PME 2009 - 2018



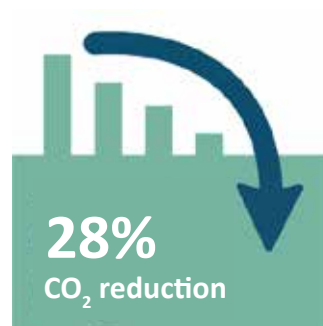
Socially responsible investment

At PME, we have set ourselves a number of practical goals:

1. To monitor the annual CO₂ footprint (CO₂ emissions) of our equity portfolio and reduce it by 25% on the level measured in 2015 in five years' time.
2. To annually commit EUR 250 million to positive impact investments so as to support the energy transition, waste disposal (recycling), access to funding, and affordable housing.
3. To ensure that by the end of 2021 at least 10% of PME's investments classify as sustainable development investments (SDIs) in line with the UN's sustainable development goals.
4. To integrate financial and SRI criteria across our portfolio.

1. PME's CO₂ footprint

PME seeks to reduce the CO₂ footprint of its equity portfolio for every euro invested by 25% on the level measured in 2015. Our CO₂ footprint has in fact contracted. Total assets invested have increased. In 2015 each EUR 100 of pension money invested in PME's equity portfolio equated with 23.4 kilograms of CO₂ emitted. The measurement carried out in 2018 showed a 28% reduction to 16.9 kilograms of CO₂. We have so far more than met our goal.



2. Positive impact investments

Through our impact investments, we want to provide solutions to existing social challenges and prevent future social challenges. These investments have a positive impact on society and the environment as well as yielding financial returns.

In 2018 we looked at which of our investments classified as impact investments according to the following themes: energy transition, access to funding and affordable housing in the private rental sector. PME currently holds EUR 972 million worth of impact investments

Investments with a positive impact

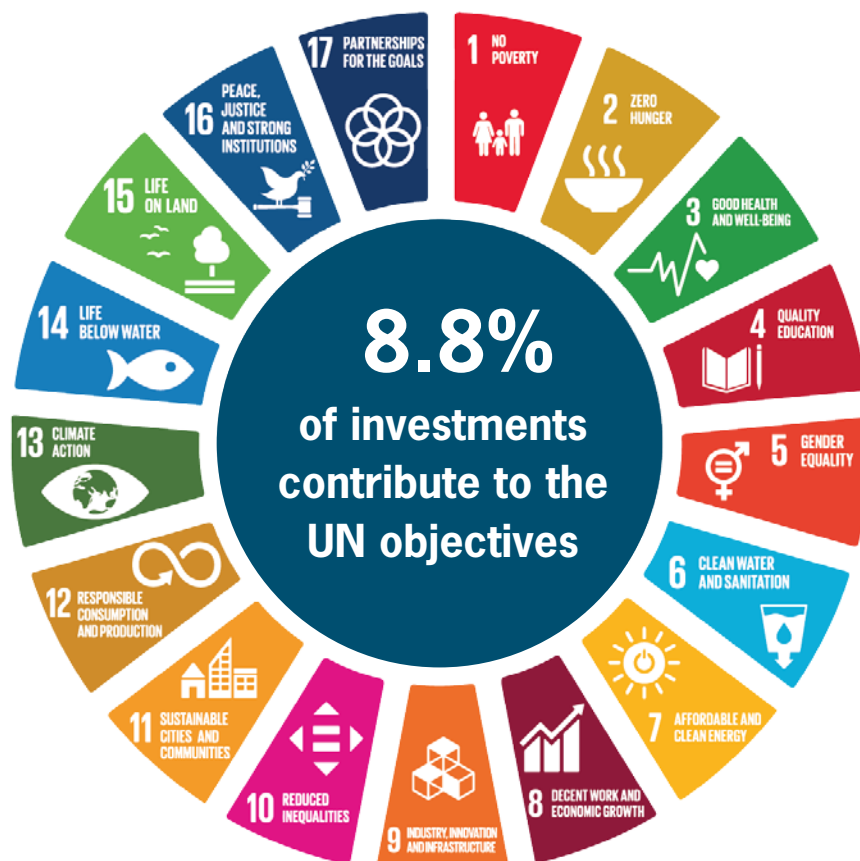
Total to 2018: € 972 million



3. SDI performance in 2018

PME seeks to have at least 10% of its investments classified as SDIs by 2021.

The measurement carried out by the end of 2018 showed that 8.8% of total portfolio investments are classified as SDIs.



4. ESG integration

In 2018 we revised our strategic investment framework. This framework sets out the convictions on the basis of which PME invests, the way in which risks are controlled, and the investment guidelines to be adhered to. The revised framework again explains why we want to invest responsibly. This goal is based on the convictions that:

- ESG factors impact the value of PME's investments and we therefore need to look at those factors to be able to select and hold the right investments, and
- PME's investment policy has an impact on the real world, for which we feel responsible and which we need to consider in selecting our investments.

The revised investment framework includes the requirement that ESG factors should also be looked at from a risk perspective and sets out revised implementation principles.

'Best in class' revised equity strategy (deliberate selection)

In addition to PME's active equity portfolio and 'responsible investor' portfolio, for which we actively select European companies that contribute to a stable and sustainable society, we also operate a global index portfolio. Over the last few years, we have tightened the criteria for companies to be included in the index portfolio. This is to encourage them to take care of the environment, their employees and society, and have a proper governance system in place.

In 2018 PME introduced the 'best-in-class' method, removing the worst performing energy companies, steel manufacturers, and mining, oil & gas companies from its portfolio, so as to mitigate the portfolio's exposure to climate risk.

Revised product strategies to support ongoing ESG integration

In 2018 PME adopted a new investment strategy for emerging market debt. In selecting countries and assets, we look at possible corruption risks and vulnerability to the effects of climate change, based on our conviction that ESG factors will impact investments in the long term.

Active ownership

PME wants to be an active shareholder of the companies it invests in. We do so by:

- engaging with those companies
- exercising voting rights at shareholders' meetings
- bringing legal proceedings.

This way, we can influence the course taken by companies and encourage sustainable long-term strategies. Where appropriate, we will work closely with other investors.

In 2018 PME engaged in talks with 58 companies about issues such as CO₂ emissions, human rights violations, working conditions, and pay policies. In 2018 we voted at 3,824 meetings, i.e. 95% of all meetings at which we were entitled to vote.

PME has been actively involved in three court cases: Volkswagen/Porsche, BP, and Fortis. We also participate passively in fifteen other cases.

Exclusion

PME will exclude companies if all or some of their operations are in violation of international treaties. We have also banned several tobacco and tar sand companies, and companies that operate in violation of the Arms Trade Treaty. Nor do we invest in companies in excluded countries that are more than 30% state-owned, or in government bonds of countries that are subject to international sanctions. In 2018 PME decided to exclude companies involved in coal production too.

At 31 December 2018, a total of 13 countries and 82 companies were excluded. A full list of excluded countries and companies (updated quarterly) is available on PME's website at [website](#).

Financial position

In administering the pension scheme, PME seeks to achieve the following goals in terms of customer service, (pension) communication, and pension management:

1. deliver excellent pension administration (services on time, high quality, accurate, future-proof);
2. achieve further cost reductions and increase efficiency through innovation and ongoing digitisation and improvement of processes;
3. increase trust in and satisfaction with PME among participants, deferred participants, pensioners and employers by offering innovative, customised solutions in terms of customer service and information provision.

1 Excellent pension administration

MN's independent auditors have issued an unqualified ISAE 3402 report for the 2018 financial year.

This means that no material misstatements have been found.

MN reports to PME's Board about its performance on a quarterly basis. MN reports all incidents (falling within the High, Medium, or Low severity category) so that we have a clear picture of the nature and extent of those incidents. In 2018 thirteen incidents were reported, one of which in the High category, five in the Medium category, and seven in the Low category. The high-category incident concerned the late payment of some 41,000 pensions in October. On the morning of 25 September 2018, it became clear that part of our payment orders had not made their way to the bank. Payment instructions were again sent to the bank the same day. The pensioners affected received their pensions one or two days later than planned. This led to 450 additional telephone calls from pensioners on 25 September. In 2018 MN reported eight data breaches.

Each expression of dissatisfaction received by letter or email is recorded as a complaint. Complaints are responded to within no more than fifteen working days.

	2018	2017	2016	2015
Number of complaints	192	82	95	378

A total of 192 complaints were submitted in 2018. These included:

- complaints about PME's funding ratio and/or investment policy (60);
- complaints about pension benefit payments (36);
- complaints about the amount of the pensions (15);
- other issues (81).

If an appeal (based on a hardship clause) or objection is filed, we will treat this as a dispute. An appeal is defined as a reasoned expression of dissatisfaction at a response given to or decision made on a previous complaint. An objection concerns a decision made under PME's regulations or policy rules. Reliance on a hardship clause involves submitting a request to the Board to deviate from the rules in an individual case if application of those rules would produce an unreasonable outcome.

The number of disputes has declined in recent years.

	2018	2017	2016	2015
Number of disputes	27	40	63	109

Of the 27 disputes submitted in 2018, five were still being dealt with at the end of the year.

Submitted	27
Dealt with:	
• participant found to be right	10
• participant found to be wrong	7
• participant partly found to be right	5
Ongoing	5

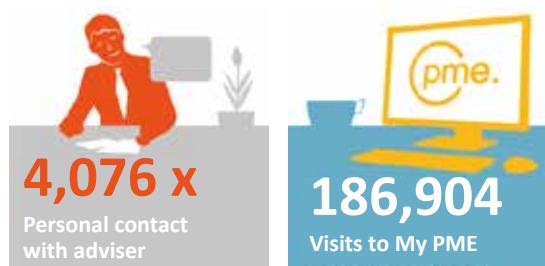
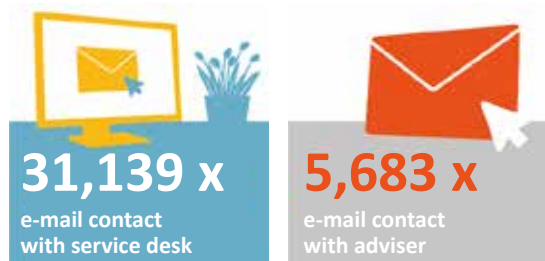
The disputes concerned:

- continued pension accruals (on a non-contributory basis/voluntary basis) (6);
- pension entitlements (6);
- revisions (5);
- supplementary insurance policies (1);
- transitional schemes (3);
- re-arrangement choices (1);
- pension value transfers (2);
- other issues (3).

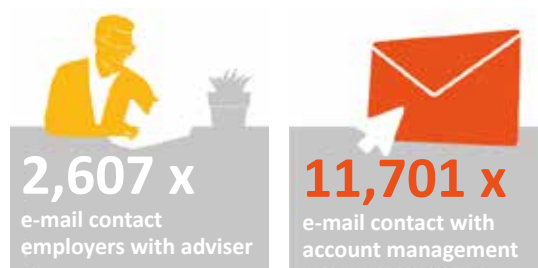
Tailored customer services

At PME, we want to communicate with all our participants, pensioners, and employers in the way that best suits their needs.

Participants and pensioners can contact us through the service desk, our pension advisers, or at pensioner meetings. They and former participants can also log onto MyPME for individual information. In 2018 PME revamped its portal for participants and pensioners. Participants now have access to a new pension planner to do their pension calculations.



Employers can contact us through our pension advisers and account management. They can also log onto PME Online for information relevant to employers. PME's employer portal will be redesigned in the first six months of 2019.



We also host webinars to interact with employers, participants, and pensioners. In 2018 three webinars were held, two of which for participants and one for employers:

1. When you retire;
2. Taking early retirement or working fewer hours;
3. PME's key figures and financial position.

Well over 4,000 people watched the webinars. Between them, they asked more than 300 questions, which were answered during or after the webinars.

In 2018 PME also put out twelve newsletters to participants, pensioners and employers by email, and published four PME Magazines for participants and pensioners.

Customer satisfaction

PME's general service delivery was rated 'good' or 'very good' by 68% of respondents. More than a quarter rated our services 'reasonably good'. At 7.3, average customer satisfaction was reasonably good.



Governance

PME is responsible for the proper management of the pension fund. That is to say, for ensuring that the pension fund administers the pension scheme for all stakeholders responsibly and in a balanced manner.

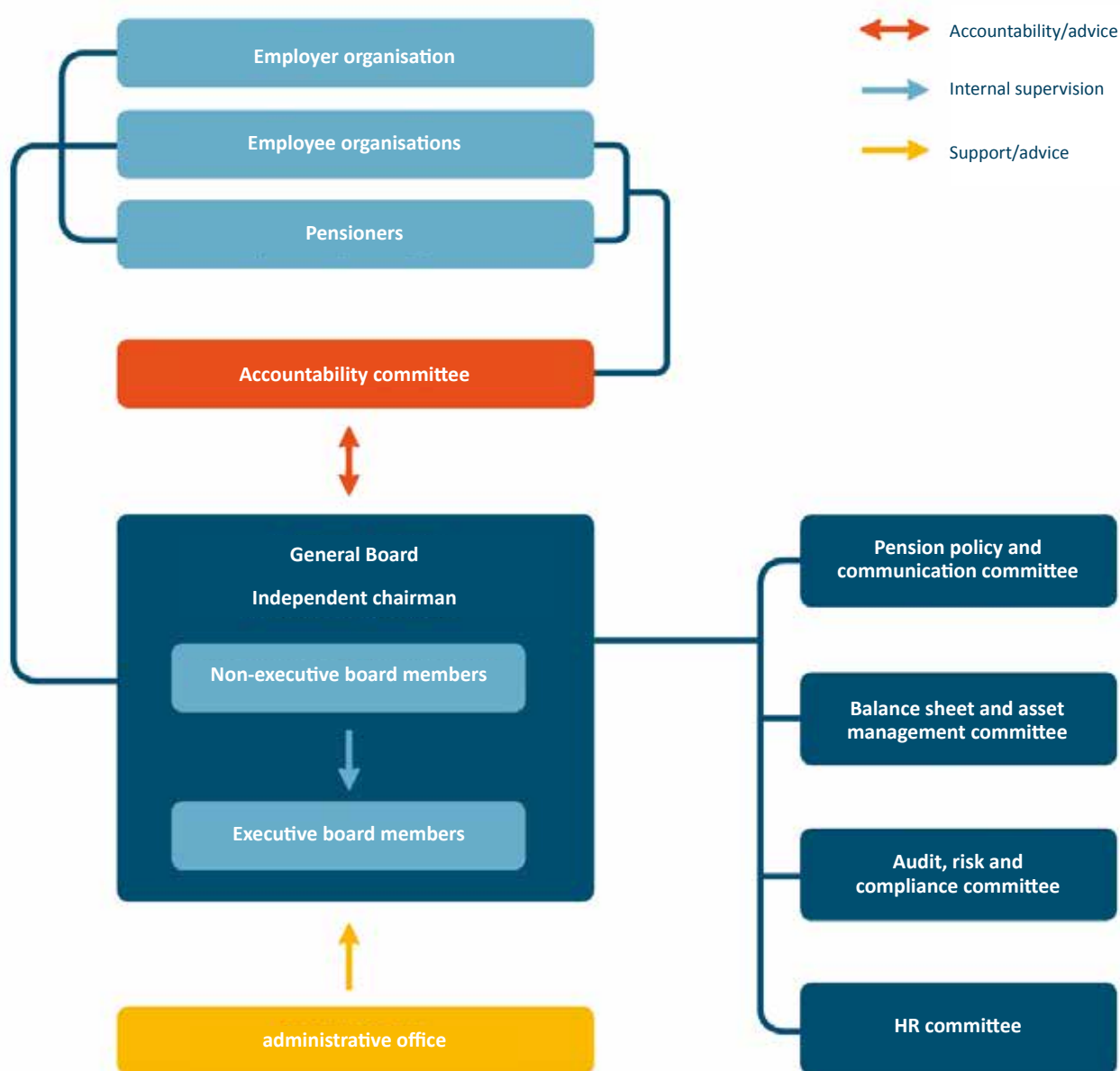
PME's Board has ultimate responsibility for this and for all other activities undertaken by the pension fund. The Board must also ensure that operations are carried out with integrity, controls are in place, and the governance model is effective. Frequent testing against and compliance with the Dutch Pension Funds Code will contribute to that.

PME's organisation

PME operates an inverse mixed board model.

In terms of design, existence, and operating effectiveness, a distinction is made between:

- managerial mandate carried out by the general board (AB) and executive board (UB);
- internal supervisory mandate carried out by the non-executive board (NUB);
- accountability and advice to and by the accountability committee (VO)
- policy recommendations by the management committees



Administration fees

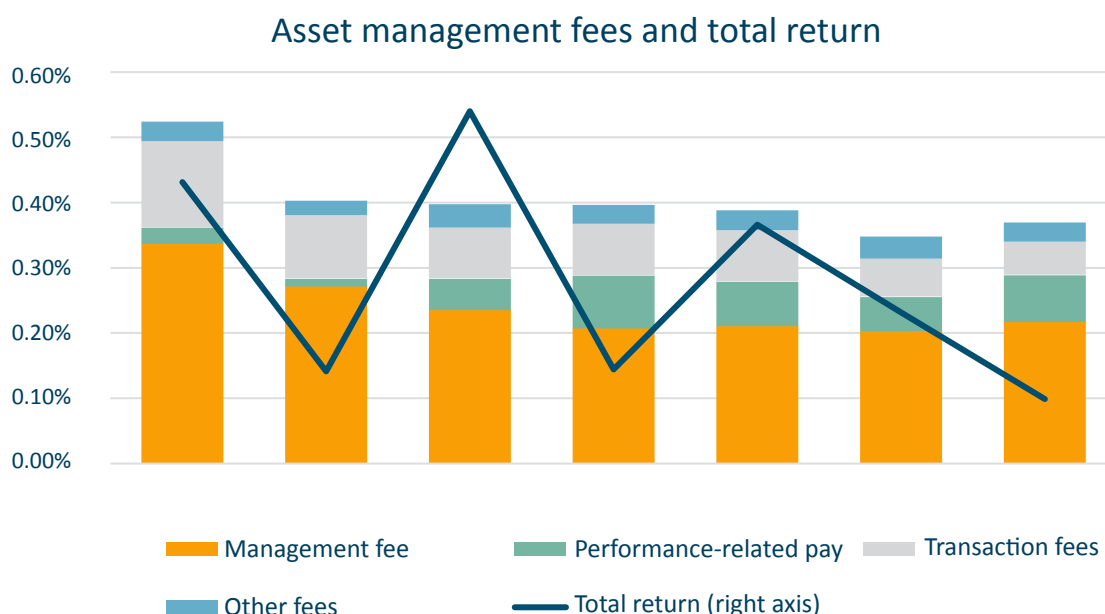
General

PME's total administration costs increased from EUR 200.5 million in 2017 to EUR 211.6 million in 2018.

	2018 EURm	Percentage ratio	2017 EURm	Percentage ratio
Pension management fees	38.8	18%	41.8	20.8%
Asset management fees (including transaction fees)	172.8	82%	158.7	79.2%
Total PME administration costs	211.6	100%	200.5	100%

Expressed as a unit of cost per participant, pension management fees fell from EUR 132 to EUR 120 in 2018.

Expressed as a percentage of average assets invested during the year, asset management fees rose from 0.35% in 2017 to 0.37% in 2018.



Relative asset management fees (as a percentage of total assets invested) increased in 2018 compared with 2017. Gross return on the investment portfolio was -0.51% and net return was -0.88% in 2018. Total asset management fees are calculated as the difference between gross and net returns, rounded to 0.37% (36.7 basis points).

Asset management fees mainly comprise regular fixed management fees, performance fees, and transaction costs. Asset management fees include both the cost of investments held directly by PME and the cost of units held in investment funds.

VAT on pension management and asset management PME disagrees with the requirement that it must pay VAT on the pension and asset management services it delivers. Not all pension funds are subject to this requirement, creating inequality between the participants of the different funds. Although PME raised this issue with the Dutch tax authorities, it became clear in 2017 that MN must also charge VAT on its asset management services. This is why MN filed additional tax returns with retroactive effect in 2018. PME will continue its efforts to prevent VAT from being set off against the pensions of its participants.

Balance sheet at 31 December

(after profit or loss appropriation) (EURm)

Assets	2018	2017
Investments for the pension fund's account		
Property	2,584	2,461
Shares	14,241	16,215
Fixed-income	27,803	26,177
Derivatives	674	997
Other investments	3,078	2,691
Total investments	48,380	48,541
Associates	4	3
Receivables arising from investments	111	43
Other receivables, prepayments and accrued income	39	50
Other assets		
Cash and cash equivalents	226	128
Total assets	48,760	48,765

Liabilities	2018	2017
Fund capital and reserves		
General reserve	(1,108)	753
Designated reserve (premium equalisation deposit)	-	114
Total reserves	(1,108)	867
Technical provisions		
Provision for pension liabilities for the pension fund's account	47,640	46,112
Conscientious objectors savings fund	4	4
Total technical provisions	47,644	46,116
Other provisions (VPL)	158	135
Payables arising from investments	2,040	1,622
Other payables, accruals and deferred income	26	25
Total liabilities	48,760	48,765

Statement of income and expenditure for the financial year (EURm)

Income	2018	2017
Pension contributions (paid by employers and employees)	1,254	1,171
Investment returns for the pension fund's account	(422)	2,077
Other income	1	-
Total income	833	3,248

Expenditure	2018	2017
Pension benefit payments	1,192	1,168
Pension administration costs	39	42
Movements in provision for pension liabilities		
Pension accruals	1,258	1,262
Pension increases	-	-
Interest added	(121)	(101)
Withdrawn for payments	(1,186)	(1,157)
Effect of changes in market interest rates	2,042	(631)
Estimate revisions	(504)	1
Actuarial assumptions	-	-
Purchase of conditional entitlements	90	100
Movements arising from value transfers	(31)	353
Other movements	(20)	7
Total movements in provision for pension liabilities	1,528	(166)
Movements in provision for conscientious objectors	-	1
Movements in other provisions (VPL)	23	30
Total net value transfers	26	(342)
Other expenditure	-	1
Total expenditure	2,808	734
Total net income/(expenditure)	(1,975)	2,514