Appendix 1: Statement of Investment Principles

1. Introduction

1.1 This Statement of Investment Principles sets out the principles and objectives governing the investment policy of Stichting Mars Pensioenfonds (hereafter “The Fund”). This Statement of Investment Principles has been prepared and adopted in accordance with the [overriding] requirements of the Articles of association of the Pension Fund and of the Dutch Pensions Act that state the requirements for the statement of investment principles. This Statement of Investment Principles was adopted at a meeting of the Pension Board held on 19 December 2013.

1.2 The Pension Board has consulted the following advisors/consultants for a written advice on the investment strategy appropriate for the Pension Fund and on the preparation of this Statement of Investment Principles:

- (a) The actuarial advisors of the Pension Fund, in particular on matters concerning compliance with the Financial Assessment Framework (*Financiële Toetsingskader*, FTK);
- (b) The legal advisors on the compliance of this document with the legal requirements;
- (c) The strategic investment advisors of the Pension Fund, in particular on the following matters:
  - ▪ The kind of investments that the Pension Fund will hold;
    - The balance between different kinds of investments;
    - The risks associated with the investment strategy of the Pension Fund, including the ways in which risks are to be measured and managed;
    - The level of return the Pension Fund expects from the investment strategy;
    - The liquidity in the Pension Fund’s investments when it would become necessary or desirable to sell the assets (e.g. to generate cash to pay benefits under the pension scheme(s) as they fall due); and
    - The allowable tactical deviations from the investment strategy;
- (d) The tactical investment advisors in relation to tactical asset allocation within and between the liquid portfolios of investments;

1.3 The Pension Board assumes that all advisors that are retained by the Pension Fund are qualified (in their respective areas of responsibility) to advise, by their respective ability in and practical experience of financial matters and because they are regulated by the respective Regulator’s in the countries where they reside. The Pension Board also assumes that these advisors have appropriate knowledge and experience of the management of the investments of pension schemes such as those administered by the Pension Fund. For a current and complete list of advisors, see Annex 1.

2. Governance

2.1 The investment strategy and its’ implementation are the responsibility of the Pension Board. The Pension Board will carry out this operational task with vigilance and prudence and in accordance with this Statement of Investment Principles, as well as the applicable provisions of the Articles of Association of the Pension Fund, other guidelines and policies of the Pension Fund and the applicable legislation and regulations.

2.2 The Pension Board is legally obliged to adhere to established investment criteria, reflected in this Statement of Investment Principles (primarily those relating to investment performance, the ability of the Pension Fund to meet its obligations to pay benefits, the control of risk and the suitability and diversification of investments), in selecting, retaining and disposing of investments.

2.3 The Pension Board has delegated the operational and tactical responsibilities for the implementation and monitoring of the investment strategy to an Investment Committee. The Investment Committee reports on a quarterly basis to the Pension Board. Major strategic decisions such as a change in the strategic asset allocation or the inclusion of new asset classes will always be made by the Pension Board.

3. Objectives

3.1 The objectives of the investment policy of the Pension Fund are:

- Protect and improve the funded status of the Pension Fund – i.e., *the ratio of market value of a Fund's assets relative to the discounted present value of the projected or accumulated pension liabilities;*
- Ensure that assets held in the Pension Fund, prospective returns, and contributions from the sponsoring Companies will enable the Pension Fund to pay pension benefits in a timely manner, such that coverage of the Fund's technical provisions is appropriate to expected future benefits payable
- Maximizing returns from the Pension Fund's assets, subject to the principles of prudent asset management, prudent risk mitigating strategies and risk management, and the incorporation of the fiduciaries' risk tolerances;
- Ensure that the liquidity of the Pension Fund's investment portfolio as a whole is appropriate for the Pension Fund's liabilities;
- Ensure an appropriate degree of risk taking into account the Fund's funding and the Employer covenant
- Ensure that the Pension Fund follows prudent asset management, risk controls, and compliance with Pension Fund documents and applicable laws.

These objectives formed the basis of an asset and liability modelling (ALM) study, which articulated a risk budget relative to the liabilities, and set the investment strategy as given in Annex 2.

3.2 Based on the advice received, the Pension Board has determined that the Pension Fund's assets should in general be invested in equity investments, fixed income and index-linked Government and corporate bonds, and cash. These liquid assets should constitute the majority of the Pension Fund's investments.

The Pension Board may also upon advice make investments in non-traditional or Alternative Investments, including Private Equity, Hedge funds, Currency, Commodities, Timberland, Property, and other asset classes as recommended by their investment advisors together with the Investment Committee.

Direct purchases or sales of derivative instruments will be used to hedge undesirable risks and to facilitate the efficient management of the investment portfolio.

3.3 The Pension Boards’ policy is to maintain suitable structures, resources and processes, to ensure that the assets of the Pension Fund are invested in a suitable manner in accordance with this Statement of Investment Principles (and any revision thereof from time to time) and in accordance with the applicable legal requirements.

4. Returns

4.1 In relation to the Pension Fund's objective of maximising returns on the Pension Fund’s assets, the Pension Board considers that, on the advice of the investment advisors, the objective is to achieve an expected policy return of 8.7% per annum, with an expected funded status volatility of 12%.

The Strategic Investment Advisor has conducted an ALM study in 2012/13 and the subsequent investment strategy review with input from and in consultation with the actuarial advisor of the Pension Fund, the investment committee and the Pension Board.

5. Strategic asset allocation

5.1 The Pension Board has determined on advice that its objectives, principally as to returns and risks, are most likely to be met if the Pension Fund's assets are invested in equity investments, fixed interest investments, cash and selected alternative investments. The allocation between these classes of investments is determined in a tri-annual schedule, following the ALM study, on the strategic advice and recommendation of the Strategic Investment Advisor. Allocation of assets within/between the portfolio of equity, bond and selected other investments is also determined from time to time on the tactical advice and recommendation of the strategic investment advisor. Annex 2 sets out asset allocation and ranges determined by the Pension Board, as at the date of this Statement of Investment Principles.
The strategic investment advisor monitors performance against benchmarks and ranges for different classes of investments and advises and recommends changes from time to time. If necessary, Annex 2 will be adapted in order to reflect changes in the investment strategy.

5.2 The day-to-day investment of the Pension Fund’s assets is delegated to investment managers who are, where necessary, regulated by an appropriate authority, such as FCA, SEC or equivalent. The choice of investment manager is made with vigilance and prudence, after carefully examining their practical experience, reputation, risk management and technical capacities.
The Pension Fund concludes an investment management agreement in writing with each of the investment managers.
The investment managers manage the investments in accordance with guidelines and mandates agreed at the time of the manager’s appointment and set out in the relevant investment management agreement.

The strategic investment advisor, in dialogue with the ETBC, the investment committee and the Pension Board:

- Advises on the selection of investment managers and fund selection and periodically reviews the arrangements, which include but are not limited to mandate specifications. This with a view to maintain overall consistency at all times with The Pension Fund’s

policy set out above; Together with the Investment Committee the advisor decides on the appointment and dismissal of investment managers.
- Advises the Pension Fund on the scope of each investment mandate or the scope of each investment fund;
- Advises on diversification of the Pension Fund's assets in terms of limits on concentration in particular sub asset and investment classes;
- Instructs individual investment managers from time to time on strategic or tactical matters, within the overall framework referred to in paragraphs 5.1 and 5.2(b) above.
- Advises the Pension Fund on the content and design of the LDI Programme.

5.3. It is the Pension Boards' policy that there should not be any investment in any Company-related investment.

6. Risk management

The overall risk management policy of the Pension Fund has been documented in a Risk Policy statement that identifies the key risk for the Pension Fund and how those risks will be managed.

6.1 The objective of the investment policy is to maximise the expected returns from the Pension Fund's assets over the long term, subject to controlling at an acceptable level, the risk that there will not be adequate assets to pay the members' benefits or meet the Pension Fund's liabilities. From the latest ALM study the risk objective for the investment portfolio has been set as a measure of funded status volatility of 12%.

6.2. The Pension Board recognizes the Pension Fund's key risk is that it may have insufficient assets to make provisions for its liabilities ("funding risk"). The Pension Board has identified a number of risks that have the potential to cause the Pension Fund's funding level to deteriorate and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values due to changes in financial factors ("mismatch risk"). The Pension Board and its advisors considered this mismatch risk when setting the investment strategy. The Pension Board realizes a long term outperformance of the minimum risk position's return, cannot be achieved without assuming risk.
- The risk that the demographical experience may be different from the reasonable demographic assumptions that have been made in the ALM study.
- The risk of a shortfall of liquid assets relative to the Pension Fund's immediate liabilities (in terms of immediate payments) ("cash flow risk"). The Pension Board and its advisors will manage The Pension Fund's cash flows taking into account the timing of future payments in order to minimize the probability that this occurs.
- The risk that the returns on the asset classes in which has been invested fall short of the expected returns that have been assumed by the Pension Board when the investment strategy was set ("market risk") To mitigate this risk the Pension Board have selected an appropriately diversified investment strategy.
- The failure by the investment managers to achieve the rate of investment return relative to the benchmark as was assumed by the Pension Board ("manager risk"). This risk is considered by the Pension Board and its advisors both upon the initial appointment of the investment managers and on an ongoing basis thereafter. In addition, to mitigate this risk the Pension Board has selected an appropriate number of managers to diversify the manager risk.

- The failure to spread investment risk including currency risk ("risk of lack of diversification"). The Pension Board and its advisors considered this risk when setting the Pension Fund's investment strategy. The policy is to hedge currency risk when this is practically possible. Hedging is also based on one of our investment assumptions that currency risks are unrewarded risks on a long-term basis.
- The possibility of failure of the Pension Fund's sponsoring Company ("covenant risk"). The Pension Board and its advisors considered this risk when setting investment strategy and consulted with the sponsoring Company as to the suitability of the proposed strategy. Moreover, this risk is also under control by concluding the Administration & Financial Agreement with the sponsoring Company. The Pension Board will take a potential financial weakness of the sponsoring Company into account when setting the mismatch in the ALM.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Pension Board has sought to minimize such risk by ensuring that all advisors and third party service providers are suitably qualified and experienced, that suitable compensation clauses are included in all contracts for professional services received, and that proper governance processes have been installed.

Due to the complex and interrelated nature of these risks, the Pension Board considers the majority of these risks in a qualitative, rather than quantitative, manner as part of each formal investment strategy review. Some of these risks may also be modelled explicitly during the course of such reviews.

The Pension Boards' policy is to monitor, where possible, these risks quarterly, and where possible to monitor these risks quantitatively. The Pension Board receives quarterly reports showing:

- The Pension Fund's funding ratio and Policy Funding Ratio and reasons for changes to the ratio
- Performance versus the Pension Fund's investment objective
- Performance of the fund manager versus targets
- Any significant issues with the investment managers that may impact its ability to meet the performance targets set by the Pension Board.

6.3 Risks associated with the mandates given to, and the performance of, individual investment managers are kept under regular review and, where necessary or desirable, changes will be made on the advice of the strategic investment advisor. The strategic investment advisor will also monitor and report on the overall ex-ante and ex-post funded status volatility of the total investment portfolio. If the ex-ante and/or ex-post funded status volatility appear to be higher than the targeted 12.0%, the strategic investment advisor will advise on measures to correct this. Such a risk report will be constructed and discussed within a Pension Board meeting, at least every six months.

6.4 Operational risks associated with the holding of assets are addressed through prudent third party custody arrangements and through internal operating procedures that have been documented in an operational procedures booklet.

6.5 Pension benefits and other costs are intended to be primarily met from regular income on the Pension Fund's assets and from contributions from the Company. The Pension Fund maintains an adequate proportion of sufficiently liquid investments.

6.6 The Pension Fund's Administrative and Financial Agreement records the agreement between the Pension Fund and the Company regarding the risk that the Pension Fund's assets will be less than its necessary liabilities and that the Pension Fund accordingly fails to meet the funding objectives under the FTK. The financing plan specifies the actions that will be taken in order to eliminate deficits in the Pension Fund’s funding against its necessary liabilities. The Pension Fund will for this purpose undergo an actuarial valuation at least every year.

7. Exercise of rights attaching to investments

In relation to the exercise of rights (including voting rights) attaching to the Pension Fund’s investments, the Pension Board has, where appropriate, given the Pension Fund’s investment managers discretion to exercise those rights, in pursuance of the objectives set out in this Statement of Investment Principles and, subject thereto, as set out in the managers’ mandates. The Pension Board, accordingly, has no additional policy in relation to the exercise of rights attaching to the Pension Fund’s investments.

8. Review

The provider of performance measurement services analyses the performance of individual investment managers and will report regularly thereon to the Pension Board. The Strategic Investment Advisor will comment on these reports and raise any appropriate issue with the Pension Board.
The Pension Fund will review this Statement of Investment Principles at least every three years. It will also be reviewed without delay after any significant change in investment policy.

9. Communication

The Pension Fund will submit this Statement of Investment Principles to De Nederlandsche Bank (DNB) within a month following the ratification thereof by the Pension Board. The Pension Fund will also submit to DNB within a month any change to the Statement of Investment Principles.
On request the members of the pension scheme(s) administrated by The Pension Fund will receive a copy of this Statement of Investment Principles.