

Do-it Pension strategic investment policy

Version of 1 January 2025

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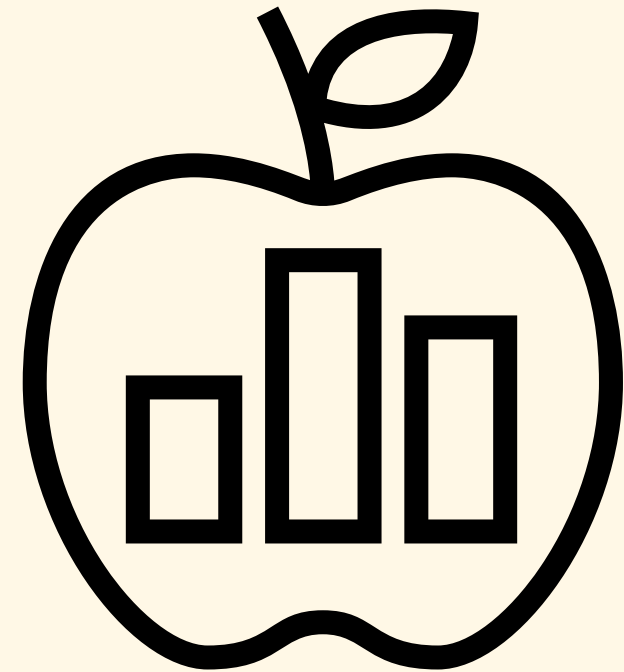
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1. Introduction

ASR Levensverzekering N.V. ("a.s.r. PPI") is the administrator of Do-it Pension: pension schemes based on defined contribution. A characteristic feature of defined contribution schemes is that the employer and employee agree only on the amount of contribution to be made available and not on the amount of pension entitlements. The investment results on the contributions deposited for the participant are for the account and risk of the individual participants.

It is the responsibility of a.s.r. PPI to ensure that contributions are invested prudently and in the interests of participants. This strategic investment policy allows a.s.r. PPI to fulfil this responsibility. The strategic investment policy describes the principles and objectives underlying a.s.r. PPI's investment policy and how the investment policy is aligned with these principles and objectives. The investment policy is based on the investment principles of a.s.r. PPI

It first describes the investment objective and describes how the risk attitude of participants is assessed and determined. Successively, it describes how the strategic allocation across asset classes based on lifecycles is established and how the allocation across sub-asset and asset classes takes place. The investment methodology is then explained.

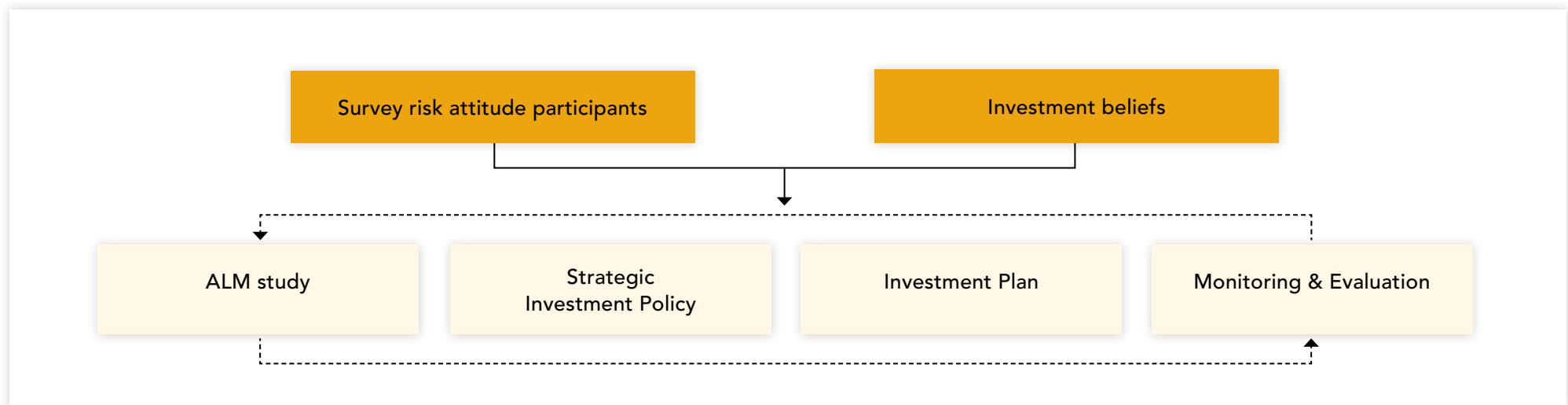


The investment policy pursued by a.s.r. PPI is in line with the prudent person rule. Pension monies are invested in the interest of participants in such a way as to ensure the security, quality, liquidity and return of the investments as a whole. Chapter 8 further specifies how the prudent person rule is implemented in the investment policy.

Chapter 9 briefly explains that the long-term strategic investment policy is specified for the short term in the Investment Plan. The various components for the creation of the strategic investment policy, as well as its monitoring and evaluation, form part of a periodic investment cycle. This is described in Chapter 10.

The Do-it Pension investment policy and lifecycles are determined by the board. Decisions to change of the investment policy are subject to the approval of the Supervisory Board of a.s.r. PPI. Decisions to change of the lifecycles are subject to the approval of the board of a.s.r. PPI.

A schematic representation of the periodic investment cycle is shown below:



2. Pension objective

Pension capital is invested by participants. This capital must be used by participants to purchase a fixed or variable pension benefit. Consequently, the invested capital has a pension objective. As the amount of the pension benefit depends on investment performance and interest rates, the pension objective is related to a pension benefit to be achieved, which is expressed in a good weather (95th percentile), an expected weather (50th percentile = median) and a bad weather (5th percentile) scenario.



3. Risk attitude

The strategic investment policy is based on the risk attitude of the participants in the pension scheme. The risk attitude can be described as the extent to which a group of participants is willing to take investment risks within the pension scheme to achieve their pension objectives (risk tolerance), and how much risk they are able to take, given the characteristics of this group (risk capacity).

It is important that the investment policy aligns with the risk attitude.

Determination and assessment of the risk attitude

When determining the risk attitude and the investment policy, the time remaining until the retirement date is taken into account for each age cohort, with equity and interest rate risks being gradually reduced as the retirement date approaches.

The determination and assessment of the risk attitude takes place in four phases:



Phase A: the risk preference study

A risk preference study is carried out at least once every five years among the participant population of the pension schemes in which participants can invest. This study investigates the extent to which participants are willing to take investment risks in view of their pension objectives (risk preference).

The survey also includes the extent to which participants are able to bear investment risks within the pension scheme (risk capacity). Risk capacity is measured by assessing how financially dependent a participant is on their pension scheme. The more important the specific pension scheme is for the participant's total retirement income, the less risk he or she can bear.

Phase B: Determining the risk attitude

The results of the risk preference study form the basis for determining the risk attitude. The risk attitude is determined per age cohort (5 years). The risk attitude per age cohort is expressed in a risk metric and an expectation metric. The risk metric sets a limit to the maximum acceptable risk for each age cohort, while the expectation metric sets a lower limit for each age cohort (minimum expectation). The combination of these measures provides a picture of the maximum risk (upper limit) and the minimum return (lower limit) that an age cohort considers acceptable. The established metrics of the risk attitude are listed in appendix III.

Phase C: Determining the investment policy

A strategic investment policy is established and implemented in accordance with the prudent person rule and based on the established risk attitude.

Phase D: Annual assessment of the alignment between investment policy and the established risk attitude

The investment policy is assessed periodically-at least annually-based on a scenario analysis to determine whether it remains aligned with the established risk attitude. If it is found not to be aligned, the investment policy will be adjusted. The scenario analysis uses the uniform scenario set provided by DNB (Dutch Central Bank).





4. Lifecycle determination

4.1 Introduction

a.s.r. PPI operates an investment policy in accordance with the prudent person rule¹. The prudent person principle includes the starting point that there should be an optimal balance between return and risk. Another starting point is that investment policy should ensure security. The lifecycle principle is a further specification of the prudent person principle and means that in the accrual phase of contribution schemes, the equity-, interest- and currency risk up to retirement date is gradually reduced as the retirement date approaches, so that it is set at a level that matches the investment profile and the benefit after the retirement date, fixed or variable pension.

In the case of lifecycle investing, the investment portfolio is harmonised with the number of years until the retirement date. The composition of the investment portfolio is related to the lifecycle phase. Well before the retirement date, the higher expected returns of higher-risk investments can be benefited from, and as the retirement date approaches, the higher-risk investments are scaled back to lower-risk investments to reduce the downside risk in retirement income.

¹ Chapter 8 explains in more detail how the prudent person rule is complied with.

The scaling back of risks within lifecycles is described in more detail in section 4.2. Section 4.3 sets out the distinction between lifecycles that anticipate the purchase of a fixed pension benefit and lifecycles that anticipate the purchase of a variable pension benefit. Finally, section 4.4 describes the method by which lifecycles are developed and evaluated.

4.2 Scaling back risks as the retirement date approaches

This section describes the main risks that are scaled back within lifecycle investing: equity risk, interest rate risk and currency risk.

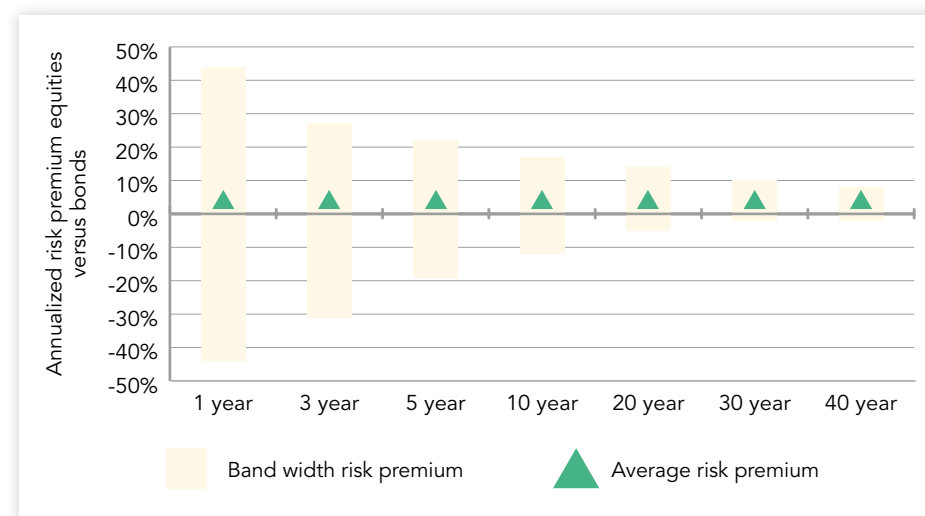
Equity risk

Equity risk is the risk that investments will lose value by investing in shares. Shares are known as a riskier asset class: prices can rise or fall sharply in a short period of time. Long before the retirement date, it is attractive to take more equity risk because this can be rewarded with a (substantial) risk premium.

Figure 1 shows the historical risk premium (the return on equities on top of the return on bonds) over different periods. It can be seen that the excess return on equities over bonds can be significantly negative over shorter periods but that the historical return on equities is significantly higher on average (approximately 45% in an annual basis). In the case of a long investment horizon, the bandwidth of the average risk premium is limited as there is sufficient time to compensate bad stock market times with periods of recovery. This allows investors to benefit from the significant risk premium in the case of a long investment horizon with limited risk.

In addition, in the case of a long horizon, periodic pension premiums can be bought at favourable prices during bad stock market times, with there being sufficient time to benefit from a recovery.

Figure 1: Historical equity risk premium compared to bonds² (1934-2013)



Interest rate risk

On the retirement date, a participant purchases a monthly pension with his or her invested capital. Besides the accrued pension capital, the amount of a fixed pension benefit to be purchased depends (to some extent) on the interest rate on the retirement date. When interest rates are low, less pension can be bought with the same capital and when interest rates are high a higher pension can be bought. We call this dependence the 'interest rate risk'.

² Period: 1934 – 2013, Equities: S&P 500 starting from 1934. MSCI World \$ starting from 1969 MSCI World € starting from 2000. MSCI World € Hedged starting from 2004, Bonds: USA 6-year bond starting from 1934. Euro government bonds starting from 2000

The value of bonds works in exactly the opposite way: the higher the interest rate, the lower the value. And the lower the interest rate, the higher the value. In the scaling back phase, a.s.r. PPI increasingly invests in bonds. The invested capital therefore becomes increasingly sensitive to interest rate fluctuations. When interest rates rise, the value of the invested capital decreases. But when interest rates rise, more pension can be purchased for every euro of invested capital. And vice versa: when interest rates fall, the value of the invested capital increases, but less pension can be purchased for every euro.

Interest rate risk plays a particularly important role if the receipt of a fixed benefit payment is anticipated. By increasingly investing in bonds with an average weighted duration that is aligned with the average weighted duration of the benefits in the final phase of the lifecycle (the 'scaling back phase') that anticipates a fixed pension benefit, the interest rate on the retirement date has only a limited influence on the level of the fixed pension benefit to be purchased and there is more certainty about its level.

Section 6.4 details the method used by a.s.r. PPI to mitigate interest rate risk.

Currency risk

The value of investments in equities and bonds may be affected by developments in the exchange rates (against the euro) in which these investments are denominated. Currency rates can change greatly, so positive returns on an investment can be offset by changes in currency rates.

Within lifecycle investing, by scaling back the equity category in favour of the bond category (with full hedging of currency risk), currency risk is also scaled back. Sections 6.3 and 6.4 deal in greater detail with the hedging of currency risk within the different asset classes.

4.3 Distinction of lifecycles for the purpose of fixed or variable benefits

In a defined contribution scheme, the accrued pension capital should be converted on the retirement date into a lifelong pension benefit.

The amount of the pension to be purchased depends on the interest rate on the retirement date, with lower interest rates leading to a lower pension and high interest rates leading to a higher pension.

The persistently low interest rate environment was one of the reasons for the introduction of the Improved Defined Contribution Scheme Act ('Wet verbeterde premieregeling') (Wvp) as of 1 September 2016. According to the new legal framework introduced by the Wvp for defined contribution schemes, the pension capital no longer has to be converted into a fixed benefit on the retirement date, but can also be risk-bearingly invested fully or partially in the benefit phase. This is then in the form of a variable benefit and is also known as 'continued investment' ('doorbeleggen').

a.s.r. PPI does not offer variable benefits itself but participants can choose to anticipate the purchase of variable benefits during the accrual phase via the lifecycle. If participants do not choose to match their investments to a variable benefit during the accrual phase, the lifecycle defaults to anticipating the purchase of a fixed benefit.

In the lifecycles for the purpose of a fixed benefit, market risk (the risk of fluctuation in stock market prices), currency risk and interest rate risk (the risk of an unfavourable pension benefit purchase price due to low interest rates on the retirement date) are scaled back during the lifecycle. Inflation risk is fully or partially mitigated by also investing in part in inflation-indexed government or other bonds.

In the lifecycle aimed at purchasing a variable benefit, market-, interest rate- and currency risk are also scaled back during the lifecycle but to a lesser extent than lifecycles aimed at purchasing a fixed benefit. Because variable pensions continue to invest after the retirement date, there is a longer investment horizon than fixed pensions. As a result, as the retirement date approaches, the market-, currency- and interest rate risk can be reduced to a lesser extent in the case of a lifecycle aimed at the purchase of a variable pension than in the case of a lifecycle aimed at the purchase of a fixed pension. In the case of a variable benefit, the amount of the monthly pension benefit is reset each year by the party paying it based on the current investment value, the current interest rate and the current rates.



4.4 Methodology for lifecycle determination

Participants' pension contributions are invested based on the lifecycle principle. The implementation, monitoring and adjustment of the investment policy is carried out in accordance with the investment process. The investment process is run at least once every three years. Part of the investment process is evaluating the investment universe. The investment universe defines the asset classes that are considered suitable to be included as part of the investment portfolio. These should be appropriate to a.s.r. PPI's investment principles. There may be several reasons to adjust the investment universe. For instance, besides the 3-yearly review, new insights or market conditions can also lead to an adjustment of the investment universe.

ALM study

The strategic allocation across asset classes based on the lifecycles (strategic asset allocation) is determined on the basis of Asset Liability Management (ALM). The ALM study takes place within the framework of the investment principles. The lifecycles are periodically tested on the basis of scenario analyses, with the aim of optimising the expected return per unit of risk.

The ALM study uses a scenario set consisting of 2,000 scenarios for expected returns, interest rate volatility and correlations based on past observations, current market conditions and long-term assumptions. For macroeconomic variables, such as interest rate, price and wage inflation, the ALM study is based on the market consensus combined with a.s.r. asset management's vision.

For each scenario analysis, the pension outcomes (adjusted for inflation) are ranked and a good weather (95th percentile), expected weather (50th percentile = median) and a bad weather (5th percentile) pension outcome are determined.

The lifecycle analysis is performed within the scope of a.s.r. PPI's investment principles. When developing and assessing the lifecycles, optimisation takes place, where, among others, the following parameters can be varied:

- Ratio of equities and real estate equities to fixed-income securities
- Scale back timing of equities and real estate equities compared to fixed-income securities
- Method of scaling back

The outcomes (the expected pension and the pension in a pessimistic scenario) are then analysed for a number of reference persons.

The lifecycle (ALM) analysis is recorded in a report. This forms the starting point for the strategic asset allocation (the allocation between different types of asset classes) that is laid down in the investment policy.

4.5 Assessment of the Lifecycles

Assessment Criteria

The following aspects are also taken into account when assessing the lifecycles:

Positioning of Lifecycles

The starting point for calculating pension outcomes when assessing the positioning of the lifecycles is the scenario set published quarterly by DNB (Dutch Central Bank) on its website.

Calculations are performed for a number of representative participants (maatmensen) of different ages. The assessment checks whether the lifecycles are logically positioned relative to each other under identical economic conditions:

- For the fixed pension lifecycles, the pension outcomes under expected and adverse scenarios increase or decrease, respectively, in the following order:
 - Defensive (fixed pension) lifecycle, Neutral (fixed pension) lifecycle, and Offensive (fixed pension) lifecycle
- For the variable pension lifecycles, the pension outcomes under expected and adverse scenarios increase or decrease, respectively, in the following order:
 - Defensive (variable pension) lifecycle, Neutral (variable pension) lifecycle, and Offensive (variable pension) lifecycle

- For the Defensive lifecycles, the pension outcomes under expected and adverse scenarios increase or decrease, respectively, in the following order:
 - Fixed pension lifecycle followed by Variable pension lifecycle
- For the Neutral lifecycles, the pension outcomes under expected and adverse scenarios increase or decrease, respectively, in the following order:
 - Fixed pension lifecycle followed by Variable pension lifecycle
- For the Offensive lifecycles, the pension outcomes under expected and adverse scenarios increase or decrease, respectively, in the following order:
 - Fixed pension lifecycle followed by Variable pension lifecycle

Duration Matching (Interest Rate Risk)

To mitigate interest rate risk at the time of pension purchase at the retirement age, the duration of the investments in lifecycles aimed at purchasing a fixed pension gradually increases toward the duration of the fixed pension to be purchased at the target retirement age.

5. Strategic allocation across asset classes

5.1 Introduction

a.s.r. PPI offers its participants three lifecycles for each type of benefit (fixed or variable), each with a different risk profile. In addition, a.s.r. PPI offers a free lifecycle, with the starting allocation of equities being chosen by the participant.

Section 5.2 describes lifecycles for the purpose of a fixed benefit and section 5.3 describes lifecycles for the purpose of purchasing a variable benefit. Subsequently, section 5.4 explains the rebalancing methodology and finally, in section 5.4, the lifecycle options for employers and participants. This section also explains the operation of the free lifecycle.

5.2 Lifecycles for the purpose of purchasing fixed benefits

Do-it Pension distinguishes between three lifecycles that focus on purchasing a fixed benefit: defensive, neutral and offensive. These lifecycles differ in risk profile with defensive being the most defensive and offensive the most aggressive. Lifecycle neutral is the default lifecycle.

Within each lifecycle, 2 periods are distinguished: the return period and the risk reduction period. In the return period, the focus is on making a return, i.e. achieving the highest possible pension. During the risk reduction period, as the retirement date approaches, the emphasis shifts to mitigating equity, currency and interest rate risk, with the aim of offering participants protection of the nominal pension benefit at a later age.

Return period

In the return period, a relatively large amount is invested in equities. In the Offensive lifecycle, the rate to which this happens is the highest and in the Defensive lifecycle the lowest. These riskier investments are necessary to make a relatively high return in the long term and thus achieve the pension target. Because the investment horizon is long enough, there is still plenty of time to absorb any fluctuations in the financial markets. Figure 2 shows the percentage of investments in equities for each lifecycle.

Risk reduction period

This period focuses on reducing equity, currency and interest rate risk.

The risk reduction period is characterized by the following 2 components:

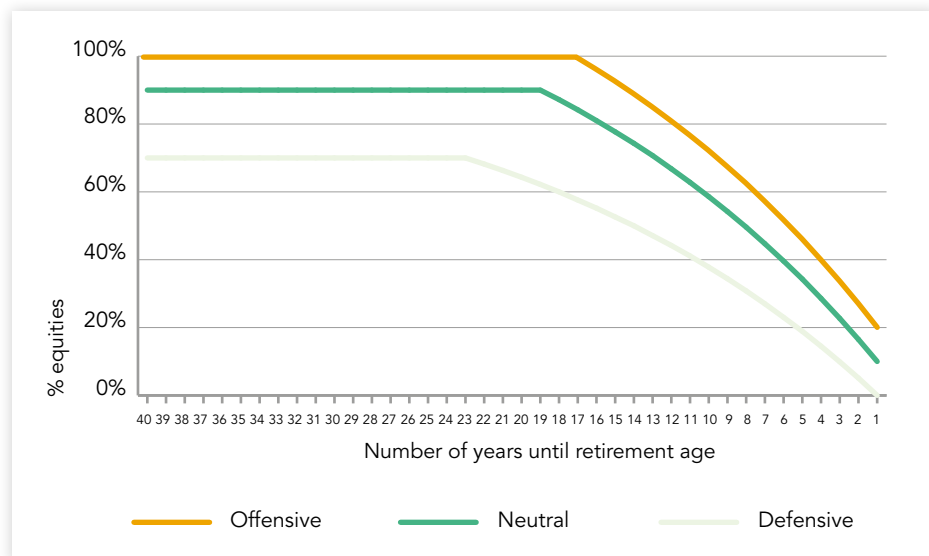
Duration of risk reduction period

The duration of the risk reduction period should not be too short to make up for investment results in bad periods, but it should also not be too long because otherwise this will be at the expense of the return period. The duration of the risk reduction period is different for each lifecycle. For the Defensive lifecycle, it is the longest and for the Lifecycle Offensive is the shortest. Figure 2 shows the moment at which the risk reduction takes place for each lifecycle.

Investment mix during the risk reduction period

As the standard retirement age approaches, investments in equities and riskier fixed income securities being invested in long-term government bonds. Risk reduction takes place in annual steps.

Figure 2: Percentage of equities in the lifecycles defensive, neutral and offensive for the purpose of a fixed benefit



An overview of the lifecycles with the distribution across all investment funds in which Do-it Pension invests can be found on our website.

5.3 Lifecycles for the purpose of purchasing variable benefits

Do-it Pension distinguishes between three lifecycles that focus on purchasing a variable benefit: defensive, neutral and offensive. These lifecycles differ in risk profile with defensive being the most defensive and offensive the most aggressive. Lifecycle neutral is the default lifecycle.

Within each lifecycle, 2 periods are recognized: the return period and the risk reduction period. In the return period, the focus is on making a return, i.e. achieving the highest possible pension. During the risk reduction period, as the retirement date approaches, the emphasis shifts to mitigating market, currency and interest rate risk, with the aim of better protecting participants against large shocks in pension capital at a later age.

Return period

In the return period, a relatively large amount is invested in equities. In the Offensive lifecycle, the rate to which this happens is the highest and in the Defensive lifecycle the lowest. These riskier investments are necessary to make a relatively high return in the long term and thus achieve the pension target. Because the investment horizon is long enough, there is still plenty of time to absorb any fluctuations in the financial markets. Figure 2 shows the percentage of investments in equities for each lifecycle.

Risk reduction period

This period focuses on reducing equity, currency and interest rate risk.

The risk reduction period is characterized by the following 2 components:

Duration of risk reduction period

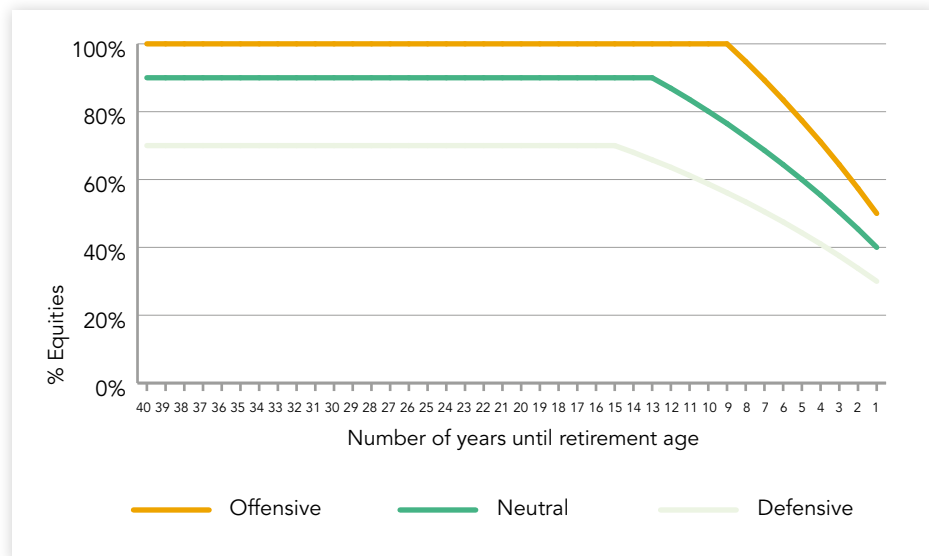
The duration of the risk reduction period should not be too short to make up for investment results in bad periods, but it should also not be too long because otherwise this will be at the expense of the return period. The duration of the risk reduction period is different for each lifecycle. For the Defensive lifecycle, it is the longest and for the Lifecycle Offensive is the shortest. Figure 3 shows the moment at which the risk reduction takes place for each lifecycle.

Investment mix during the risk reduction period

As the standard retirement age approaches, investments in equities and riskier fixed income securities are declining and more and more are being invested in government bonds. Risk reduction takes place in annual steps. The breakdown between equities and bonds over the entire term of the lifecycle can be found in Appendix 2.

The starting allocation to equities, the equities scaling back point and the equities landing percentage are shown for the three different lifecycles in Figure 3.

Figure 3: Percentage of equities in the lifecycles defensive, neutral and offensive for the purpose of a variable benefit



An overview of the lifecycles with the distribution across all investment funds in which Do-it Pension invests can be found on our website.

5.4 Rebalancing

Price movements may cause the weighting of different asset classes in a portfolio ('investment mix') to deviate from the strategic allocation.

The strategic investment mix is the investment ratio targeted and set out in the lifecycle document. It is therefore important to rebalance. As a result, an investment mix that deviates from the strategic allocation is brought back into line with the strategic allocation so that no more risk is run than desired.

a.s.r. PPI aligns participants' investment mix at least annually at whole years before the retirement date with the strategic allocation associated with the chosen lifecycle. The contribution is always invested in accordance with the strategic allocation.

Adjusting the bond mix to bring the actual hedging of the interest rate risk to desired levels also leads to rebalancing for those participants who are in the risk reduction phase and are anticipating a fixed pension benefit.

5.5 Investment choices the for participant and employer

Investment choices at employer level

The choice at employer level is defined within the scheme and has the following options:

Choice	Description
1. No investment freedom	- Each participant invests according to the neutral investment profile.
2. Limited investment freedom	- Each participant invests according to the investment profile that suits him or her: neutral, defensive or offensive.
3. Investment freedom	<ul style="list-style-type: none">- Each participant invests according to the investment profile that suits him or her: neutral, defensive or offensive;- A participant determines his or her own starting allocation between equities and bonds (opt out choice).
4. Investment freedom with ASR Euro Geldmarkt Fonds	<ul style="list-style-type: none">- Each participant invests according to the investment profile that suits him or her: neutral, defensive or offensive;- A participant determines his or her own starting allocation between equities and bonds (opt out choice);- A participant invests his or her entire pension accrual in the ASR Euro Geldmarkt Fonds (opt out choice).



Investment choices at participant level

If a decision is taken at employer level to give participants limited or full investment freedom (choices 2 up to and including 4), the participants themselves are also automatically given a number of choices. For instance, the participant is asked to fill in a profile gauge on the basis of which a risk profile is advised with a corresponding lifecycle: defensive, neutral or offensive. The participant has the choice to nevertheless opt for a different investment profile and lifecycle. By default (i.e. immediately upon registration or upon making no choice), the participant always invests in accordance with the neutral lifecycle for the purpose of a fixed pension benefit.

When the employer opts for investment freedom (choice 3), the participant can choose his or her own starting allocation between equities and bonds in addition to the investment profiles defensive, neutral and offensive. The starting point here are the lifecycles associated with the offensive investment profile. The participant chooses a percentage between 0 and 100%. This percentage is applied to the equity percentage associated with the offensive lifecycle. If the participant opts for a rate of 50%, the equity percentage of his or her own lifecycle, both in the accrual and scaling back phases, will always be half the equity percentage associated with the offensive lifecycle.

This choice also involves mandatory risk scale back. This risk scale back is linked to the offensive lifecycle (fixed or variable). This means that the scaling back point and landing percentage for equities correspond to the scaling back point and landing percentage for equities in the offensive lifecycle (fixed or variable). Note: If a participant within the lifecycle is preparing for a fixed (variable) benefit and opts for an initial equity allocation of 20% (50%) or less, then-according to this methodology-this results in the risk not being

reduced, but instead increased from the point the participant is 16 (8) years before retirement age. The equity allocation is then built up to the landing percentage in line with the offensive lifecycle: 20% in the case of a fixed benefit and 50% in the case of a variable benefit.

If the participant determines his or her own starting allocation between equities and bonds, this will involve opting out. The participant would do well to obtain information about how this choice works. In addition, the participant is reminded annually that there is an opt out choice and asked to complete or to again complete the profile test to see if the current choice is still appropriate.

If the employer chooses full investment freedom (choice 4), a participant can, in addition to one of the lifecycles or their own starting allocation of equities, also choose to fully invest his or her pension capital and contributions in the ASR Euro Geldmarkt Fonds. In the ASR Euro Geldmarkt Fonds, there is a lower risk of investing than in the equity and bond funds in the lifecycle but also a lower expected return. The choice to choose an own starting allocation of equity or to invest the pension capital and premiums entirely in the ASR Euro Geldmarkt Fonds involves opting out.

Regardless of the employers' choice, before the scaling back of risk starts, each participant will be given the choice as to whether the participant wants to scale back according to the lifecycles for a fixed pension benefit or according to a lifecycle for a variable pension benefit. For this choice too, the participant is asked to complete the profile gauge in order to make an informed choice.

6. Strategic allocation within asset classes

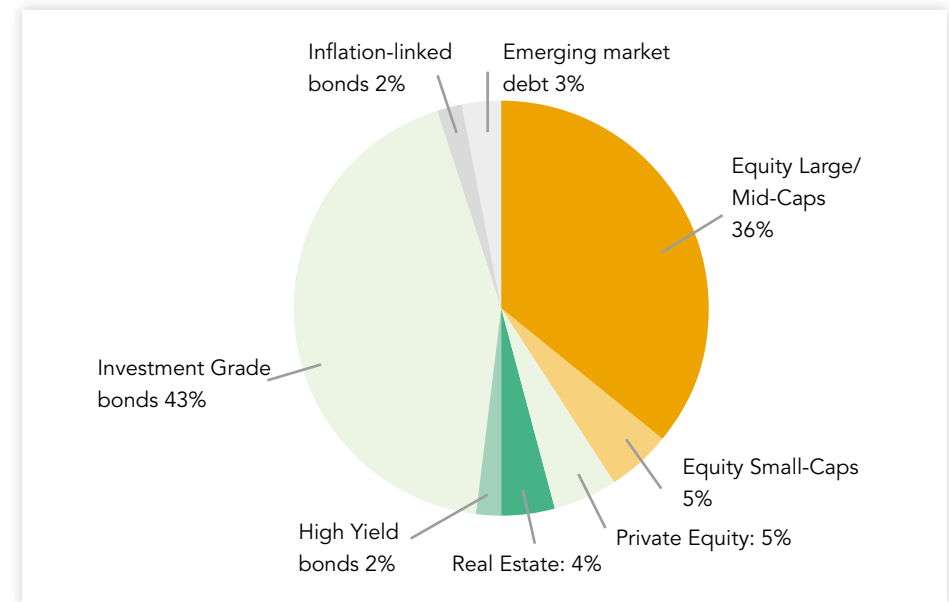
6.1 Introduction

One of the key starting points in a.s.r. PPI's investment principles is that spreading across asset classes ensures stable pension accrual. a.s.r. PPI believes that a broadly diversified portfolio spread across multiple asset classes delivers robust portfolio performance. However, a.s.r. PPI is aware of the limitations of too much spread and therefore imposes restrictions. Alternative asset classes in particular, which usually have a higher expected return than creditworthy bonds, do not necessarily offer the most robust and reliable diversification with respect to equities in times of stress. a.s.r. PPI believes that in many cases, the additional expected return does not outweigh the additional risk associated with these asset classes. The investment universe of a.s.r. PPI therefore consists mainly of the main classes of equities and creditworthy bonds. This allows an optimal risk-return ratio to be constructed and these classes provide the most proven reliable diversification.

Moreover, by using creditworthy bonds, interest rate risk can also be hedged. This avoids having to use complex financial products, which keeps costs down, reduces operational implications and minimises counterparty risk.

Alternative asset classes can be part of the investment portfolio but only if it can be substantiated that this contributes to the risk-return ratio of the participants and provides sufficient diversification benefits.

Figure 4: The allocation of the market portfolio³



³ References: 1. Doeswijk, R., Lam, T., and Swinkels, L., 2014, "The Global Multi-Asset Market Portfolio, 1959–2012", Financial Analysts Journal 70(2), pp. 26–41. 2. Doeswijk, R., Lam, T., and Swinkels, L., 2020, "Data update: The Global Multi-Asset Market Portfolio, 1959–2012". Erasmus University Rotterdam (EUR). Dataset. <https://doi.org/10.25397/eur.9371741>

Section 6.2 explains how the strategic asset allocation takes into account the positive and negative impacts of our investments on people and the environment. Section 6.3 then explains how the equity class is strategically allocated. To conclude, Chapter 6, section 6.4, explains the allocation across subclasses within the bond portfolio.

6.2 Responsible investing

At a.s.r. PPI, we invest in line with a.s.r.'s Responsible Investment Policy (also known as the "a.s.r. PRI Policy"). In all investment funds within the lifecycles, sustainability risks are taken into account in the investment decisions and screening is based on the a.s.r. PRI policy (Policy on Responsible Investing). The PRI policy is regularly updated based on new insights and expectations, available information and amended legislation.

a.s.r. PPI is convinced that by integrating sustainability features into the investment funds, social impact could be made as well as contributing to the long-term risk-return perspective of its participants, including by mitigating physical risks, transition risks and social and governance risks.

For that matter, our Responsible investment policy not only focuses on our investments but is also implemented throughout our business operations.

6.3 Equity

The starting point for the equity class is the widest possible spread in line with the global market portfolio. This is a portfolio representing all market segments that are invested in worldwide. a.s.r. PPI considers the global market portfolio to be an optimal portfolio because it reflects the expected sustainable returns, risk and correlations of all market participants combined.

In practice, this means striving to ensure that a participant has allocation to all market segments represented in the global market portfolio in the same proportion in which it is reflected in the global market portfolio. In principle, this is only deviated from when it conflicts with investment principles (e.g. ESG policy) or is not appropriate within the limits of cost-efficiency or liquidity.

The global equity market can be broken down into a number of different subclasses, divided by market capitalisation and region. a.s.r. PPI distinguishes the following subclasses when investing in equities:

- Developed markets equities, large and mid caps (companies with a high or medium market capitalisation), (hedged)
- Developed markets equities, large and mid caps (companies with a high or medium market capitalisation), (unhedged)
- Developed markets equities, small caps (businesses with smaller market capitalisation)
- Emerging markets equities, large and mid cap
- Listed real estate equity

a.s.r. PPI does not invest in direct (unlisted) real estate. As direct real estate does form part of the global market portfolio, listed real estate is used as a proxy for unlisted real estate. In this way, the global market portfolio can be better matched.

Currency risk on equity

Globally diversified equity portfolios not only provide allocation to foreign securities, but also provide exposure to foreign currencies. This exposes participants to currency risk. a.s.r. PPI partially hedges the currency risk within the equity portfolio (approximately 50%).

In determining the extent to which currency risk is hedged, the benefits of hedging have been weighed against the costs and the extent to which hedging is considered relevant to the participant.

Securities Lending

Securities lending may occur within the investment funds in which a.s.r. PPI invests. Securities lending can provide additional returns but also comes with additional risk. a.s.r. PPI's securities lending policy focuses on achieving additional returns at minimal additional risk. It is therefore important that securities lending is applied within acceptable risk frameworks and costs. The fund manager ensures that in the case of securities lending, sufficient risk mitigating measures are taken (e.g. in the form of collateral) and that securities lending takes place on market terms.

6.4 Bonds

The starting point for the bond class is, on the one hand, to spread as widely as possible across issuers and, on the other, to ensure a high credit rating. This mitigates risk with the aim of providing greater protection of pension capital just before the retirement date against major shocks.

a.s.r. PPI distinguishes the following sub-classes when investing in bonds:

- Long-term euro investment grade government bonds
- Global investment grade bonds (hedged)
- Euro investment grade credits/government bonds
- Euro investment grade government bonds
- Inflation-indexed government bonds

In the early stages of the lifecycle, global investments are made in both government and corporate bonds (with a minimum credit rating of investment grade) to take advantage of the diversification benefits of global investing. For lifecycles for the purpose of variable pension benefits, this remains the case even after the time of scaling back risk. From the time of scaling back risk in the lifecycles aimed at a fixed pension benefit, we increasingly invest in long-term (investment grade) Eurozone government bonds. For the sake of security, this is done to increase the scaling back and average creditworthiness of the bond portfolio. Market risk is scaled back both within the variable and fixed lifecycles. This is done by reducing the allocation to equities in favour of bonds.

Based on the starting points of maximising diversification, safety and investing in line with market capitalisation, a.s.r. PPI makes different choices at different points in the lifecycles with regard to the strategic allocation to bond subclasses. This allocation depends on the starting point of what a.s.r. PPI considers most important at a given point in the lifecycle.

For instance, the allocation between government and non-government bonds is based on market weighting. To determine the allocation to Eurozone and non-Eurozone bonds, two factors play an important role: diversification and security. Specifically, it is a trade-off between the added value of diversification (which argues for a higher allocation to non-euro bonds) and the added value of a stronger link to developments in the Eurozone (which argues for more euro bonds). To benefit from both, a.s.r. PPI invests in both global bonds and Eurozone bonds, with the allocation to long-term Eurozone bonds building up as the participant approaches the standard retirement age.

The main argument for investing more in European government bonds as the standard retirement age approaches is that the interest rate and currency characteristics match the pension liabilities (the pension benefit the participant receives). So investing in a (creditworthy) Eurozone government bond secures the pension benefit as much as possible. This is not possible if you invest outside the Eurozone: the currency risk may still be hedgeable, but the interest rate movements of non-Eurozone government bonds will never move in tandem with Eurozone interest rates on a one-to-one basis.

Interest rate risk (duration matching)

As described in section 4.2, the interest rate risk on the retirement date is important for the participant. After all, with a fixed benefit pension, a benefit is purchased on the retirement date with the pension assets, the amount of which largely depends on the interest rate at the time. The higher the interest rate, the higher the monthly pension. And vice versa.

The value of bonds works in exactly the opposite way: the higher the interest rate, the lower the value. And the lower the interest rate, the higher the value. In the scaling back phase, we increasingly invest in bonds. The invested capital therefore becomes increasingly sensitive to interest rate fluctuations. When interest rates rise, the value of the invested capital decreases. But when interest rates rise, more pension can be purchased for every euro of invested capital. And vice versa: when interest rates fall, the value of the invested capital increases, but less pension can be purchased for every euro.

To mitigate interest rate risk, fixed-income securities are increasingly aligned with the pension to be purchased as the standard retirement age approaches. This is achieved by gradually increasing the duration of the investments of the lifecycles aimed at purchasing a fixed pension in line with the duration of the fixed pension to be purchased at the standard retirement age. We call this process 'duration matching'.

At least annually, the duration of the pension to be purchased for the standard retirement age is redefined and the duration of investments is matched accordingly. a.s.r. PPI aims to fully hedge the interest rate risk in the year before the standard retirement age. However, due to developments in, for instance, interest rates and duration of the funds, the interest rate hedge achieved during the year may differ from the desired hedge. This is monitored periodically. Material deviations may give rise to an interim adjustment (and rebalancing) with the duration of the investments being rematched with the duration of the pension to be purchased at the standard retirement age.

In the case of lifecycles for variable pension benefits, interest rate risk is not scaled back because variable pension benefits continue to be invested to some extent after the retirement date. The amount of the benefit therefore depends not only on interest rates at one point in time.

Currency risk on bonds

For bonds, hedging currency risk is almost universally accepted. Because of the high volatility of currencies with regard to bonds, bonds lose stability due to currency risk. As we increasingly invest in bonds as the standard retirement age approaches with the aim of further securing the pension on the retirement date, the currency risk for all non-euro denominated bonds is fully hedged from a security perspective.

6.5 Derivatives

Investment funds in which investments are made should as far as possible hold physical investments. Derivatives are only allowed in the context of efficient portfolio management or for hedging currency risks. Derivatives can be useful and sometimes even necessary for proper fund management, e.g. to hedge currency risks with derivatives and to ensure the liquidity of funds.

Due to the risk that derivatives can have, a.s.r. PPI sets preconditions on the use of derivatives within the investment instruments in which it invests.

The preconditions imposed by a.s.r. PPI on the use of derivatives can be divided into preconditions in the context of efficient portfolio management and preconditions relating to hedging currency risk.

The preconditions are as follows:

- Derivatives use in the context of efficient portfolio management:
 - Exposure to derivatives (which consists of the unachieved gain or loss that would be eliminated if all counterparties to that type of derivatives could no longer meet their obligations) should not exceed 2.5% of fund assets.



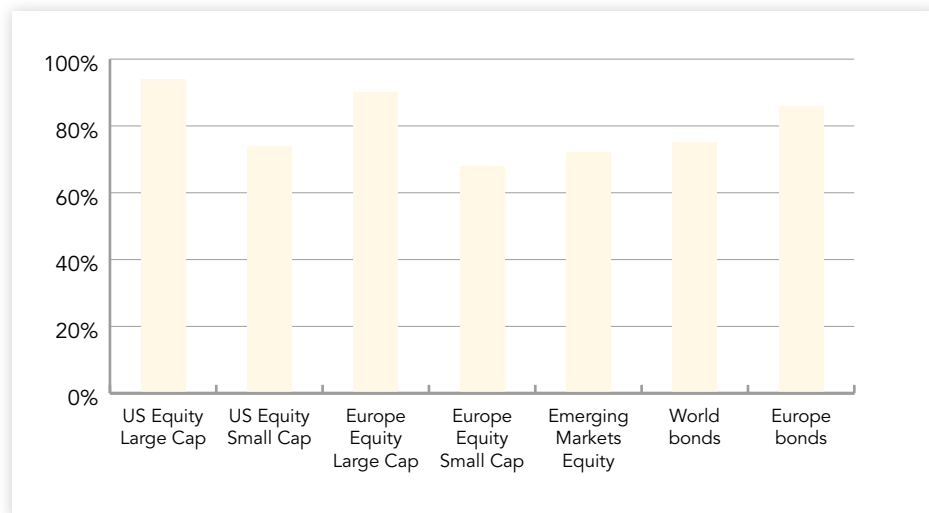
- The percentage of the portfolio provided with index futures does not exceed 5% of fund assets. This can provide an indication of whether funds are actually using futures for efficient portfolio management or falsely claiming physical replication of the index.
- Collateral held due to derivative positions should have a minimum credit quality of A.
- The percentage that can be filled with bond futures for the purpose of duration management is 10% of fund assets.
- Derivatives allocation for the purpose of hedging currency risk:
 - A minimum hedge percentage of 95% and a maximum hedge percentage of 105%.

7. Investment methodology

The investment methodology by which the different asset classes are managed stems from our investment principles. The aim of the investment methodology is to achieve a return close to the benchmark. Markets are so efficient that it is proving difficult to achieve structurally higher returns than the market average over the longer term with active management. For instance, Figure 9 shows that over a 10-year period, in all major asset classes, around 70% to 90% of actively managed funds perform worse than passive index funds. Moreover, active funds that outperform index funds can only be identified in retrospect.

We at a.s.r. PPI therefore mainly opt for a passive investment approach unless it conflicts with our investment principles, our responsible investment policy or when it can be substantiated that a more active approach contributes to the long-term risk/return perspective of our participants or social impact.

Figure 5: Percentage of active funds performing worse than index funds (2010-2020)⁴



For the purpose of our passive investment approach, we mainly use 'enhanced index' investment instruments that largely follow the composition of the benchmark but also take into account our responsible investment policy.

8. Prudent person principle

a.s.r. PPI operates an investment policy in accordance with the prudent person rule. Pension monies are invested in the interest of participants in such a way as to ensure the security, quality, liquidity and return of the investments as a whole.

a.s.r. PPI's investment policy implements the prudent person principle as follows:

- Investment spreading:
 - For the equities class, the starting point is the widest possible global diversification in line with the global market portfolio. For the bond class, one of the starting points is to maximise global diversification across issuers, while maintaining a high credit rating.
- Balance between return and risk:
 - Diversification can be used to construct an efficient portfolio with an optimal risk-return ratio. An important starting point for applying spread to maximise diversification benefits is a.s.r. PPI's belief that a combination of a broadly diversified equity portfolio on the one hand and a broadly diversified creditworthy bond portfolio on the other is in practice the most efficient portfolio in terms of risk and return (see also Chapter 6).
- Liquidity:
 - a.s.r. PPI invests pension monies mainly in funds that invest in financial instruments tradable on international markets such as listed equities and bonds.

⁴ Source: Morningstar Active / Passive Barometer report 31/12/2020.

- Security:
 - The structure of the investment portfolio takes the age of the participants into account by applying the lifecycle principle. In lifecycles, equity-, interest- and currency risk is gradually scaled back to a level that matches the investment profile and the type of benefit desired after the retirement date (see also Chapter 4).
 - The timing and selection risk of actively managed funds is mitigated by investing in passively managed funds.
 - duration matching

In addition, the prudent person principle is also implemented by applying the following investment policy starting points:

- No pension monies are ever directly invested in contributing enterprises. If a contributing enterprise is listed, the possibility cannot be excluded that via the underlying investments (investment funds), a small percentage is indirectly invested in the enterprises belonging to the same group as the contributing enterprise. In that case, given the broad spread of investments, no more than 5% will ever be invested in contributing enterprises.
- All investments are valued on the basis of market valuation.
 - Investment funds tradable on regulated markets and/or trading platforms are traded at the closing price. Other assets and liabilities are valued at nominal value.
- Pension monies are invested in funds that invest exclusively in financial instruments admitted to trading on regulated markets.

- The (underlying) investment funds may use derivative instruments such as warrants, futures, forward exchange contracts and option contracts, but only if this helps to reduce the risk profile or is necessary for duration management and/or effective portfolio management. In addition, an (underlying) investment fund may enter into forward exchange contracts for the purpose of hedging against currency risk.
- Securities lending is allowed, but only if sufficient risk-mitigating measures are taken by the fund manager and the proceeds predominantly benefit the participants in the investment fund.
- a.s.r. PPI never takes out loans as a debtor and does not act as a guarantee for third parties.

The above starting points apply to all investment profiles offered by PPI a.s.r

9. Investment plan

This strategic investment policy is detailed annually in an investment plan. This investment plan defines the operational investment policy and establishes specific and detailed target levels and bandwidths for each asset class. The investment plan should also comply with the requirements of the prudent person rule.

The strategic investment policy is evaluated periodically. The investment plan will take into account aspects including the results of the evaluation. The investment plan is adopted by the board and discussed with the fund manager. After final adoption of the investment plan by the board, it is also issued to the fund manager.

10. Investment cycle

The various components of the creation of the strategic investment policy, as well as its monitoring and evaluation, form part of a periodic investment cycle. This investment cycle includes at least the following components:

- Periodic performance of a risk preference study
- Annual review of the strategic investment policy and investment plan;
- Annual preparation of the investment plan;
- Annual evaluation of the implementation of fund management activities (the operational policy);
- Periodic evaluation of the fund management;
- Monthly monitoring of compliance with the investment framework.

a.s.r. PPI has a separate governance policy in which the investment cycle is detailed in a policy document.

Appendix I:

Strategic asset allocation to lifecycles for fixed pension benefits

	Neutral		Offensive		Defensive	
Years before retirement age	Equities	Bonds	Equities	Bonds	Equities	Bonds
> 40	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
40	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
39	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
38	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
37	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
36	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
35	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
34	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
33	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
32	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
31	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
30	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
29	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
28	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
27	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
26	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
25	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
24	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
23	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
22	90.00%	10.00%	100.00%	0.00%	68.2%	31.8%

	Neutral		Offensive		Defensive	
Years before retirement age	Equities	Bonds	Equities	Bonds	Equities	Bonds
21	90.00%	10.00%	100.00%	0.00%	66.3%	33.7%
20	90.00%	10.00%	100.00%	0.00%	64.3%	35.7%
19	90.00%	10.00%	100.00%	0.00%	62.2%	37.8%
18	87.2%	12.8%	100.00%	0.00%	60.00%	40.00%
17	84.2%	15.8%	100.00%	0.00%	57.6%	42.4%
16	81.00%	19.00%	96.6%	3.4%	55.2%	44.8%
15	77.7%	22.3%	93.1%	6.9%	52.6%	47.4%
14	74.3%	25.7%	89.3%	10.7%	50.00%	50.00%
13	70.7%	29.3%	85.4%	14.6%	47.1%	52.9%
12	66.8%	33.2%	81.3%	18.7%	44.2%	55.8%
11	62.8%	37.2%	77.00%	23.00%	41.1%	58.9%
10	58.6%	41.4%	72.5%	27.5%	37.8%	62.2%
9	54.2%	45.8%	67.7%	32.3%	34.4%	65.6%
8	49.6%	50.4%	62.7%	37.3%	30.8%	69.2%
7	44.7%	55.3%	57.5%	42.5%	27.00%	73.00%
6	39.6%	60.4%	52.00%	48.00%	23.00%	77.00%
5	34.3%	65.7%	46.2%	53.8%	18.9%	81.1%
4	28.6%	71.4%	40.1%	59.9%	14.5%	85.5%
3	22.7%	77.3%	33.7%	66.3%	9.9%	90.1%
2	16.5%	83.5%	27.00%	73.00%	5.1%	94.9%
1	10.00%	90.00%	20.00%	80.00%	0.00%	100.00%

* A overview of the lifecycles with the distribution across various investment funds can be found on our website.

Appendix II:

Strategic asset allocation to lifecycles for variable pension benefits

	Neutral		Offensive		Defensive	
Years before retirement age	Equities	Bonds	Equities	Bonds	Equities	Bonds
> 40	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
40	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
39	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
38	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
37	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
36	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
35	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
34	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
33	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
32	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
31	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
30	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
29	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
28	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
27	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
26	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
25	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
24	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
23	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
22	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%

	Neutral		Offensive		Defensive	
Years before retirement age	Equities	Bonds	Equities	Bonds	Equities	Bonds
21	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
20	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
19	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
18	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
17	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
16	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
15	90.00%	10.00%	100.00%	0.00%	70.00%	30.00%
14	90.00%	10.00%	100.00%	0.00%	68.00%	32.00%
13	90.00%	10.00%	100.00%	0.00%	65.80%	34.20%
12	86.90%	13.20%	100.00%	0.00%	63.60%	36.40%
11	83.60%	16.40%	100.00%	0.00%	61.20%	38.80%
10	80.10%	19.90%	100.00%	0.00%	58.70%	41.30%
9	76.50%	23.50%	100.00%	0.00%	56.10%	43.90%
8	72.60%	27.40%	94.80%	5.20%	53.40%	46.60%
7	68.60%	31.40%	89.30%	10.70%	50.50%	49.50%
6	64.40%	35.60%	83.50%	16.50%	47.50%	52.50%
5	60.00%	40.00%	77.40%	22.60%	44.30%	55.70%
4	55.40%	44.60%	71.10%	28.90%	41.00%	59.00%
3	50.50%	49.50%	64.40%	35.60%	37.50%	62.50%
2	45.40%	54.60%	57.40%	42.60%	33.80%	66.20%
1	40.00%	60.00%	50.00%	50.00%	30.00%	70.00%

* A overview of the lifecycles with the distribution across various investment funds can be found on our website.

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