



SUMMARY ANNUAL REPORT

2018



Financial year
1-1-2018 incl. 31-12-2018



1. Key figures

All amounts are rounded to thousands of euros, unless otherwise stated.

	31-12-18	31-12-17	31-12-16	31-12-15	31-12-14
Numbers					
Participants	5,243	5,273	5,697	5,779	6,032
Former participants	2,689	2,219	1,579	1,375	711
Pension beneficiaries	204	141	84	39	9
Total	8,136	7,633	7,360	7,193	6,752
Financial data					
Investments at pension fund's risk					
Invested assets	522,241	434,512	309,973	191,627	100,535
Investment result	-622	19,126	24,156	-2,032	12,237
Return on investments*	0.3%	4.9%	11.7%	1.2%	20.2%
Technical provisions					
Provision for pension liabilities own account	471,024	369,669	292,799	176,048	80,865
Provision for pension liabilities reinsurance	216	415	680	701	1,564
Total technical provisions	471,240	370,084	293,479	176,749	82,429
Reserves					
General reserve	53,648	66,193	19,564	17,051	19,296
Funding ratio					
Present	111.4%	117.9%	106.7%	109.6%	123.4%
Required (strategic, 2014: real)	119.9%	120.4%	120.8%	118.4%	116.3%
Minimum required	104.3%	104.3%	104.4%	104.5%	105.1%
Policy	117.9%	114.6%	103.7%	113.2%	
Real	93.7%	90.3%	82.6%	88.8%	

*The return on investment is the arithmetic average of the year's monthly returns. Total return on investment was negative due to the large loss in December. However, as the return on investment was positive in most months, the arithmetic average for 2015 turned out positive.



	2018	2017	2016	2015	2014
Contributions by employers and employees					
Pension plan contributions	90,164	103,150	93,948	92,794	85,704
Other contributions	2,630	2,646	2,325	2,275	5,146
Total	92,794	105,796	96,273	95,069	90,850
Pension benefits					
	565	361	183	63	25
Costs					
Operating and administration costs	1,935	1,937	1,794	1,845	1,570
Pension administration (in euros per participant and pension beneficiary)	355	358	310	317	260
Asset management (as % of invested assets)	0.26%	0.30%	0.37%	0.47%	0.90%
Indexation					
1-1-2018 / 1-1-2017 / 1-1-2016 / 1-1-2015	0.87%	0.09%	0.00%	0.20%	0.00%



2. Highlights of 2018

2018 was a busy year for NN CDC Pensioenfonds. Alongside all the effort that went into day-to-day pension administration, asset management and communicating with our participants, a great deal of energy went into the route towards the new pension plan.

Throughout 2018, NN CDC Pensioenfonds met with the social partners to discuss the administrative, communicative, financial and legal aspects of the new pension plan envisaged by the social partners, while the board itself did not take part in the negotiations. Given that the social partners had not reached an agreement for a new collective labour agreement (CLA) by early 2019, the validity of the old CLA, including the provisions of the pension plan, extended into 2019.

In April 2019, the social partners reached a negotiated result with regard to a new CLA. The negotiated result also includes a new pension plan, which is intended to take effect on 1 July 2019. When a final agreement has been reached, NN CDC Pensioenfonds will assess whether the negotiated result reached by the social partners will be financially feasible, justifiable and suitable for administration and, based on the outcome, it will decide whether it is able to accept the task of executing the new pension plan. One of the most important changes under the new pension plan is that the employer's share of the pension contribution will no longer be determined on an annual basis, but will instead be fixed for several years in advance. In the second half of 2019, and in the years 2020 and 2021, the overall pension contribution will amount to 30% of the pension base. Every year, NN CDC Pensioenfonds will assess whether the contribution that had been fixed for that year is sufficient to cover the accrual rate for old-age pension targeted for the following year. If it isn't, the accrual rate for old-age pension in the given year will be adjusted downward.



The pension fund's financial position is largely determined by developments in the financial markets and interest rates. As in every year, this meant the pension fund's investment policy had to be monitored closely throughout 2018. The board met at least once every month to discuss changes in interest rates and in the pension fund's funding ratio, investment policy and interest rate hedging as well as other relevant factors, such as macro-economic trends, central banks' monetary policies and geopolitical aspects (particularly Brexit and the trade war between the USA and China). Although the phasing-in procedure that had been agreed when the pension fund was incorporated was completed in 2017, the board so no reason to modify the strategic allocation of the pension fund's investments during 2018. However, given the growing volume of assets managed, there will be a need for further diversification going forward. Following the conclusions of an asset & liability management (ALM) review, it was decided to modify the strategic investment policy and gradually implement these changes in 2019 and 2020. Implementation is dependent on multiple factors, including the pension fund's level of statutory capital required by law. Relevant in this context is that NN CDC Pensioenfonds has had a reserve deficit since the end of September 2015 and has had to produce a recovery plan. As long as the pension fund has a reserve deficit, it is not allowed to increase its risk profile.

In light of the discussions on modification of the pension fund's strategic investment policy, a survey was conducted to find out how much risk and uncertainty the participants would be willing to accept. The survey revealed that all participants, regardless of their age, consider certainty and return on investment an important factor. On the other hand, the participants are aware that a certain degree of risk is unavoidable in order to acquire more pension. The outcome of the survey was taken into account when the pension fund's investment policy was modified. The survey also showed that, in terms of trust, the participants rate the pension fund 7.4 on a 10-point scale. NN CDC Pensioenfonds is very pleased with this outcome.



Over the past year, we put a lot of energy into comprehensive and transparent communications on the pension fund's policies, financial position, results and consequences for the participants, as well as on the roles of the social partners and the pension fund in the 'pension triangle'. Our aim was always to raise pension awareness among the participants.

The survey showed that the average level of awareness and knowledge of pensions and investments among our participants is higher than in the market as a whole. Nevertheless, we have noticed gaps and we will continue to focus our efforts on improving their knowledge and awareness. The key theme of socially responsible investments (SRI) was on the agenda quite frequently. As early as in 2017, we took measures to update and refine our SRI policy, which we continued to implement in 2018. The board consulted external experts and aligned the pension fund's policies with those of both employers (NN Group and ING).

The turbulent developments on the financial markets, particularly in the last months of 2018 when factors including geopolitical tensions mounted, had a large impact on the pension fund's funding ratio. At year-end 2018, the pension fund's current funding ratio was 111.4%. The policy funding ratio (the average current funding ratios for the preceding twelve months) was 117.9% at year-end 2018.

Under the provisions of the new Financial Assessment Framework and the pension fund's internal regulations, the pension fund is allowed to increase pensions if its policy funding ratio as at 30 September 2018 was higher than 110%. On that reference date, it was 118.7%. Taking into account the rules for increasing pensions and future-proof indexation, it was decided that pensions would be increased by 0.87% with effect from 1 January 2019. This is significantly higher than the increase granted with effect from 1 January 2018 (0.07%).

Over the past year, we saw the impact of European regulations grow in multiple areas.



For example, by the entry into force of the General Data Protection Regulation (GDPR) regarding data storage and privacy. The board members and all board bureau staff were given a detailed presentation on the contents and requirements of the GDPR and in-depth consultations were held with the pension fund's outsourcing partners. Within the board bureau, a data protection officer was appointed to monitor compliance with the GDPR. The pension fund is also being affected by new regulations under the EU directive regarding Institutions for Occupational Retirement Provision (IORP). In anticipation of the debate on the implementation of IORP II in the Dutch upper house of parliament, NN CDC Pensioenfond's has already taken action to meet the requirements of the directive, including the introduction of key positions.

The organisation and staffing of the board bureau was changed drastically by the appointment of a new director in January 2018, modification of the management structure, appointment of a new (temporary) head of investments and a new (temporary) integral risk manager via internal promotions and by enhancement of the AML team. This has clearly led to improved support for the board. The board bureau performed excellently in its contacts with the social partners regarding the new pension plan and in liaising with and maintaining sustainable relationships with other stakeholders such as the accountability board, the supervisory committee, the Dutch central bank (DNB) and the Netherlands Authority for the Financial Markets (AFM). We now have in place a productive working relationship through which the pension fund and its stakeholders can find one another when necessary.

The pension fund worked together with Pensioenfond's ING on a number of topics. Particularly noteworthy were the efforts made in collaboration with ING CDC Pensioenfond's and the employers NN Group and ING with regard to the Pension Fund Academy. This initiative demonstrates that these pension funds are making innovative efforts to stimulate diversity.



The Pension Fund Academy initiative won the 2018 Pension Pro Innovation Award.

The board and the supervisory committee regularly had meetings and constructive liaisons with one another. Not only do discuss regular topics, but also regarding specific themes such as the investment policy and developments regarding the new pension plan. The supervisory committee was also involved in the procedure for recruiting and selecting new board members in 2018.

Based on the resignation schedule, which was introduced as part of the new management structure in order to lower the average age of the board and raise its diversity, two vacancies arose. Candidates have been nominated for both board positions, and they have already been assessed by the supervisory committee. Appointment of these candidates is now waiting for approval by the Dutch central bank (DNB). We hope to be able to confirm their appointment in the second quarter of 2019.

As said in the introduction above, a great deal of energy went into preparing for the situation in 2019 and the years after that. For example, we already know the social partners intend to have more fundamental discussions on pension as an employment condition, based on the outcome of the national debate on revising the pension system and on changes within the company. NN CDC Pensioenfondsen also specifically reviewed the potential impact of a new national pension agreement and looked into alternative ways for organising the administration of NN's pension plan and its collaboration with ING CDC Pensioenfondsen. Given that little progress has been made towards a new national pension agreement, we have not drawn any conclusions or taken immediate action. However, we will continue to monitor these developments next year in order to prevent the pension fund from being caught by surprises that could be detrimental to our participants.



3. Balance sheet

All amounts are rounded to thousands of euros, unless otherwise stated.

Balance

(after approval of results)

Assets	31-12-2018	31-12-2017	Liabilities	31-12-2018	31-12-2017
Investments at pension fund's risk			Reserves		
Real estate investments	56,790	44,472	Fund's capital	53,648	66,193
Equities	143,581	131,111		53,648	66,193
Fixed income investments	323,588	257,701	Technical provisions for pension fund's risks		
Derivatives	185	1,246	Provision for pension liabilities	471,024	369,669
		524,144	Provision for occupational disability risk	216	415
Receivables and prepayments		717		471,240	370,084
Cash and cash equivalents		3,390	Current liabilities and accrued liabilities		
Total assets		528,251		3,363	1,338
			Total liabilities	528,251	437,615



4. Cash flow statement

	2018		2017
Pension activities			
Ontvangsten			
Contributions by employers and employees	92,316		105,425
Benefits from reinsurance	0		0
Incoming value transfers of pension rights	1,453		1,756
	93,769		107,181
Expenditure			
Pension benefits	-770		-568
Premium for reinsurance	-66		-62
Outgoing value transfers of pension rights	-2,241		-1,352
Operating and administration costs	-1,893		-1,963
	-4,970		-3,945
Total pension activities		88,799	103,236
Investment activities			
Income			
Sale and redemption of investments	327,499		180,844
Direct investment results	10,006		8,811
	337,505		189,655
Expenditure			
Acquisition of investments	-424,719		-291,875
Asset management expenditures	-796		-688
	-425,515		-292,563
		-88,010	-102,908
Movement in cash and cash equivalents		789	328
Cash and cash equivalents at 1 January		2,601	2,273
Cash and cash equivalents at 31 December		3,390	2,601



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