

Vision 2030

## Investment Management - Vision 2030

From : Geraldine Leegwater, Jeroen de Munnik  
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## 1 Introduction

Where are we, as the No. 1 investment manager for healthcare and welfare sector pensions, going to be in 2030? That is the question we're attempting to answer in this *Vision 2030* document. Since there's still plenty of time before we get to the year 2030, there was no reason for us to limit our trains of thought in any respect. And so, we haven't.

That freedom of thought made us all aware of the need to make certain changes now, if we are to remain the trusted partner the participants in the sector have come to know us as in the years ahead.

*Vision 2030* outlines the main areas where those changes are to take place. Starting off with a day in the life of one of our participants in the year 2030, we then make the 'case for change'. This is then followed by a detailed discussion on the changes required, outlining them in more general terms, before they are gone into in more detail for each of the six 'dials', e.g. the investment process, governance and (corporate) culture, that jointly determine the quality and added value enjoyed by the PFZW participants. The document concludes by discussing what follow-up steps need to be taken.

*Vision 2030* is the result of a monumental effort driven by a large section of PGGM employees from across the company, though mostly hailing from our Institutional Business and Investment Management departments, inspired by a number of world-renowned experts. We were pleasantly surprised to find PGGM employees subscribing to the direction we've taken in large numbers. The passion and drive harboured by our PGGM employees is a reflection of us being an organisation with a clear mission, i.e. to not only achieve financial, but also a sustainable and social return on our investments. This has left us proud of the people working at PGGM and confident in the direction we've taken.

*Geraldine Leegwater, Jeroen de Munnik*  
June 2021

## 2 A day in 2030

Her alarm clock sounds in a bright new day. A new day, in a new town, in a new house and with a new job to boot. Having worked as a nurse at the *Limburgs Medisch Centrum* for the past ten years, she recently decided to finally make the switch. She decided to move back home to Friesland. And she's found a new job, as well, working at a smaller-sized care home in the Frisian town of Bolsward.

Today is Friday and marks the end of her first full week at her new job. It's also the last day of the introductory week. Yesterday's introductory session was on pensions. She'd never really paid much attention to all that stuff about pensions. I mean, there'd be plenty of time to worry about your pension, right? And though she understands the importance of having some money saved for a rainy day, she's focussed on her job, and why she does what she does: caring for others.

Funnily enough, though, yesterday's pension talk proved a lot more interesting than expected. She found out how the money she puts away for later in life, now, is also doing good. It's being put towards a lot of things she cares for, but didn't know were being built and set up with her savings. Funny how the money you put away for thirty or forty years is already having an impact right now. She'd never really looked at it in those terms.

Peering into her new, yet still empty, living room, she's sure she's going to feel right at home here. And the thought that her old Maastricht apartment as well as her new Bolsward rental home are both investments of her own pension fund, paid for with her very own contributions is putting a quiet smile on her face.

Adding some muesli to her bowl of yoghurt, she puts on her VR glasses. With her retirement date drawing ever nearer, she's been putting them on quite often now to see what her pension will bring. And things are looking solid. It appears she'll have more than enough to simply get by, with plenty extra to spend on travelling, going out and treating her kids to something nice, as well. She's quite stunned to find her personal pension reserve to have more than doubled over the last ten years, without her even noticing. Her pension fund was able to land her a very nice overall return.

She then receives a newsflash from her pension fund. It states that the fund's influence and efforts have driven *Nestle*, the company that makes the muesli she's currently having for breakfast, to make its muesli supply chain fully sustainable, end-to-end. That's a worldwide sustainability first! Now that's what I call clout! That's what the pension professionals I met yesterday were calling working on a sustainable world through the 'steering power of money'.

They also mentioned that some of the return on her contributions is generated by her fund creating value within the big transitions that are going on in the healthcare, food and energy sectors.

And the great thing there is that, as she herself is a healthcare worker, she has a say in where the money she put in, and the influence that accompanies that, goes. You see, she's periodically asked which social topics are most important to her. That input is then taken by a panel of healthcare professionals and converted into required return targets, i.e. how much money she'll actually be needing upon her retirement, and absolute risk components, i.e. how certain she'll be to actually receive those amounts. (Fortunately,) managing her monthly contributions and investing those funds is not something that healthcare professionals have to do themselves. That's left to the

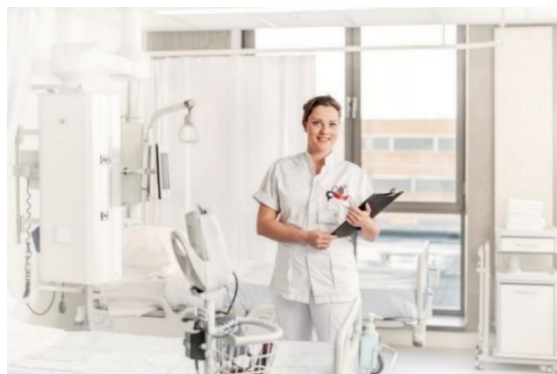
pension professionals. And that's a good thing. We wouldn't want to leave our healthcare provision in the hands of pension professionals now, would we? And yesterday's pension session has given her some insight into how pension professionals go about doing that.

She's still somewhat amazed at the enthusiasm with which those pension fund employees had talked about the work they do. They were as excited about their jobs as she was about hers. Plus, they'd been able to properly explain to her the principle underlying their management and investment of those collective funds. It's what the pension professionals had referred to as "sustainable value creation". This sees them invest in areas that tie in with the social topics that are important to her personally. And this has, in turn, seen a company like *Nestle* decide to turn out its muesli packaging using a circular manufacturing process. She's really pleased to find the pension professionals willing and able to explain to her how each investment they make contributes to her pension, society as a whole, and the environment. It's a portfolio containing a manageable number of investments, allowing them to at all times check whether they still meet the standards set. And the great thing about it is, that she's able to track all of them in real time on her VR goggles!

Thinking back to yesterday's session, she reckons that those pension professionals knew what they were talking about. They were excited. And cared about what they were doing. And they possessed a great deal of knowledge and experience. And wherever they felt it more efficient, quicker, or smarter to do so, they'd call in such knowledge from elsewhere, from companies with more specialised expertise. Clever.

She really felt that it was important that those pension professionals that she'd met, would at all times know where, and how, each and every one of her Euros was invested, irrespective of whether they'd made the investment themselves, had outsourced it to a third party, or had teamed up with another organisation. There was never any conflict of interest, or any scattering of responsibilities, there was only one place where all the investment decisions are made. That's quite assuring to know.

She never thought talking about pensions could ever prove so useful! And there are many similarities with her own job over the past ten years. How she'd have to seek out information about her patients from a multitude of sources. And how many people would have to be consulted before any decision at the hospital would ever get made. Such delays were not merely detrimental to her job satisfaction specifically, they'd also cause valuable time to be lost. Time better spent on helping her patients recover. It's great to see that her pension fund has made similar strides in recent years. She grabs her keys and coat before making her way out the door. Off to her new job and feeling confident about the future.



### 3 Vision 2030 - Executive Summary

PGGM's *Vision 2030* has seen the company step out of the box in thinking about how it could remain both successful and relevant to PFZW's participants in the longer term.

PGGM's mission: We are PGGM. A sound and reliable value in the healthcare and welfare sector. We put all our efforts towards attaining PFZW's participants a good, affordable, and sustainable pension.

Ensuring we can still offer them a good, affordable, and sustainable pension over the next decades requires a new investment approach. We refer to our 2030 investment approach as "sustainable value creation", i.e. investment management aimed at achieving a good financial return through long-term value creation, offering a positive contribution to society and the environment. Our investments yield a financial return, contribute to the great global transitions and visibly impact the topics our participants feel are important. Our pension fund is able to justify every Euro invested, both in terms of its yield towards gaining the participants a good pension, as well as its impact on the world we live in.

There are a number of reasons compelling us to set those changes in motion. The new Dutch pension system has brought participants in a lot closer than before. Future financial returns are expected to yield record lows. Transitions such as the energy transition see financial risk and opportunity intricately intertwined with contributing to a better world. There's an increased call for investment portfolios to display transparency and sustainability. What impact the investments have is increasingly becoming a more important component of the investor's fiduciary duties. Lastly, there's the extreme pace with which the investment management sector is undergoing its digital transformation, consequently calling us to adapt to this new reality. That also offers the tools for creating a more effective investment process and a more effective organisation.

PGGM is convinced that in taking more responsibility in achieving its goals, it will prove able to attain better returns within this changing environment, both financially as well as in terms of sustainability. This will, more than ever before, require an organisation able to identify and capitalise on the opportunities this brings, both in a top-down, as well as a bottom-up sense. That process sees the individuals and the teams involved become the bearers of the success attained. This requires the organisation to adopt a culture and employ the professionals that will match that. An important component part of this is making distinct choices within the make-buy-ally process.

Our *Vision 2030* sees the pension fund participant made the central figure within the investment process. We know the participant through and through. We involve the participant in the investments her pension fund makes, and this in turn yields us her trust. The participant's pension is in safe hands and being put to good use. The pension fund board directs and sets pension policy, decides what risk attitude to take and also sets the goals for responsible investing and the frameworks within which those goals are to be achieved (the WHAT). The investment manager, PGGM, is entrusted with achieving the goals set within the relevant frameworks (the HOW). There is an independent and central countervailing role that supports the pension fund board.

The overall responsibility for the portfolio within PGGM is centralised. We have fully integrated our financial and sustainability goals into our investment process. Any potential investment is scored in a uniform framework to check the extent to which it contributes to PFZW's objectives. This is how all potential investments compete for inclusion in the portfolio. This incentivises teams and

professionals to put forward their investment suggestions that will help grow the portfolio. This, in turn, sees teams and professionals make a sizeable and tangible contribution to achieving participants a good pension in a world they can enjoy living in.

## 4 Need for Change

A number of current and future developments are forcing PGGM to change its investment approach, so as to allow it to remain successful in the long term.

The **new Dutch pension contract** will bring **pension participants** in a lot closer than before. They are the beginning and end to all thinking about the overall implementation of the investment management process. Who are the participants? What are their needs and preferences, both in a financial, as well as a social sense? How are we going to justify our investments to them? Can we convert the objectives of the participants in such a way that everyone at PGGM knows what contribution they're making to those objectives?

Going forward, the current return expectations for markets are **extremely low**. How are we going to organise ourselves in such a way that we'll be in the best position possible to harvest the maximum return available?

There's a great need for making strides in terms of **sustainability**. The fiduciary role is changing, with increasing demands being made of it by the legislator, the participant and society as a whole. Participants are increasingly seeking answers from their pension fund as to the impact their investments are having on the world they live in. We're moving towards a world where participants are asking their pension fund to use their investments to make a tangible contribution to solving problems within society. And that's an objective that has since also become a rather feasible option, as transitions see financial risk and opportunity intricately intertwined with the contribution to solving a problem like climate change, for example. How do we go about amassing a portfolio that is going to offer a good financial return, is sustainable and has a lasting impact on the issues that matter most to PFZW's participants?

There's a growing trend among academics, too, of moving away from the narrow-minded risk/return approach, to one where long-term financial returns are only perceived as able to stand the test of time if they're also offering a clear contribution to society, or at the very least, not negatively impact society. Going against the societal direction of travel is not a viable strategy in the longer term and is one that will, in the end, also come to negate financial value.

Currently, the investment process is set up in accordance with its then incumbent principles, and largely structured in a top-down fashion, with the emphasis also on process quality and on ensuring the existence of strong countervailing powers, resulting in a drawn-out processing chain. We've taken the joint view that, in the longer term, our objectives are better served by taking a **more comprehensive** approach to investment management and by taking on greater responsibility for the returns yielded. How can we direct the investment process in such a way that it will add value in terms of returns, risk and impact? How should we **organise** ourselves to enable us to direct that comprehensive approach? How will that affect what PGGM will take on itself and what it outsources to third parties? How will that affect the **type of people it employs, their required skill sets and abilities and PGGM's culture**?

Developments in the **digital transformation** that the investment management sector is currently undergoing, are moving at a blistering pace. The technologies that are developed during that transition and the data that will become available as a result of it, will present us with great opportunities as well as challenges. This will prove to hold true in respect of our investment decisions, our supporting processes as well as our relationship with the participants. How will we be



utilising these technologies in 2030? What components will PGGM take on itself and which will we bring in from outside? How does this affect the investment chain?

These developments are progressing at a rapid pace and come with a great deal of impact. Though this document is entitled *Vision 2030*, the time to act on it is now.

## 5 Outlining our approach and how we'll be contributing to the objectives set

### 5.1 Our 2030 investment approach

Pensions are accrued individually, but participants participate in a collective system governed by a pension fund board that represents them and services their needs. Pension fund participants are central to the pension system and it's they who, through their pension fund board, set the main objectives. Pension fund participants and their pension fund board are in constant close and intense contact with each other as they strive to have their funds invested in a manner that is congruent with the participants' preferences and show that their retirement is in safe hands. The pension fund board directs and sets pension policy, decides on the risk preferences, and sets the goals for responsible investing (the WHAT). The pension fund ensures that participants have a good and affordable pension in a world they can enjoy living in.

With participants not only offered transparency on the returns, but also on the impact of their investments, they become more closely involved in the investment process. Participants will assume that their money is only entrusted to parties who will treat it properly and are able to track how their funds are invested by the high level of transparency and impact ratings they are offered.

We refer to our 2030 investment approach as "sustainable value creation", i.e. investment management aimed at achieving a good financial return through long-term value creation, offering a positive contribution to society and the environment. In a world that is in transition, financial risk and opportunity are intricately intertwined with such transitions, and can no longer be viewed separately. Our investments yield a financial return, contribute to the great global transitions and visibly impact the topics the participants feel are important. The pension fund is able to justify every Euro in its portfolio invested, both in terms of its yield towards gaining the participants a good pension, as well as its impact on the world we live in. I.e. the financial system is not a stand-alone system. The pension fund is committed to achieving goals in the real economy.

The investment manager, PGGM, is the expert partner able to construct and manage the investment portfolio required to achieve those goals (the HOW). Beyond doubt is that anything the investment manager undertakes, serves the objectives set by the participants. Lines of communication and decision-making are short and efficient and part of a process that is as simple as it can be. That process also provides how an investment is managed and who manages that investment. The investment manager ensures that all investments made serve the objectives set by the pension fund. What's the best way of structuring a portfolio that will enable us to achieve both the financial as well as the sustainability ambitions set? This is where all investments compete with each other and where all are set off against each other and have their pros and cons weighed in a uniform process.

The underlying principle of the portfolio is that the investments included therein offer an attractive proposition in terms of sustainable value creation. The investment bar has been set rather high in that respect, i.e. the only investments that will be considered for inclusion are those sufficiently contributing to that objective. All potential investments are constantly competing with each other for inclusion in the portfolio within a structured framework. Risk budgets are employed alongside sustainable value creation to allow portfolio optimisation.

Obtaining a robust risk/return profile with a sufficient diversification is then expected to also require the portfolio to be complemented by financially attractive investments, which offer a materially less positive contribution to society and the environment.

In 2030 our investment approach will demand higher standards of investment potential. As the approach seeks to attain maximum sustainable value creation based on the best investment opportunities available, pursuant to the creation of a robust diversification within the portfolio itself and the attainment of the desired risk/return profile, a reduction in the number of investments is expected. We've let go of investing in all available investments as a guiding principle. This will go a long way to making it easier to offer transparency and accountability.

These changes call for a commensurate investment process. An investment process with the right governance, people, culture and partnerships. PGGM has identified the digital transformation as offering a great deal of opportunity for supporting investment decisions and the back office duties accompanying those, as well as for making the portfolio more transparent for those involved in the investment process, for PFZW and for its participants.

## 5.2 What will this yield in return?

### Building a relationship with the participant

Involving the participant in the investments the pension fund makes yields trust. The investments we make on her behalf are visible and tangible and relate to the world she lives in. Our investments contribute to the great global transitions and visibly impact those topics the participants feel are important. Communicating with the participant in a clear and personal manner will increase her sense of engagement with the people striving to ensure her a sound retirement. The participant's pension is in safe hands and is being put to doing good.

### A higher return

PGGM is convinced that the aforementioned investment approach will yield a higher return.

- The goal of ensuring that participants have a good and affordable pension is converted into an absolute return and risk target. This is the central objective of all investment decisions made in the investment process.
- The investments are effectively directed towards attaining that objective because all involved speak the same language regarding the contribution to the bigger picture in terms of risk and return. All investments compete with each other.
- More is made of the opportunities presenting themselves as a result of some of the big transitions currently under way.
- Sustainable value creation triggers one to look beyond existing investment categories and towards the investment potential transitions can bring.
- There's an explicit way of determining what the most efficient way is of achieving your return on a certain exposure. Can that be achieved by investing in the stock market, in a private market or in bonds?
- Accountability for the returns made is unambiguous and there's a result-oriented culture aimed at achieving the participant's objectives.

**A portfolio we can be fully accountable for**

We know everything about all our investments and take responsibility for them. We are able to explain how each of the investments contributes to ensuring that participants have a good and affordable pension in a world they can enjoy living in.

**Understandable and controllable**

The participant's understanding is enhanced by her, through the pension fund, having a say in what the objectives should be and through her pension fund being able to be accountable for how each of the investments made is contributing to these objectives. This is clearly communicated to the participant.

The pension fund board focusses on the main strategic elements and monitors the level of quality delivered in implementing its policy. In that, the pension fund is supported by a countervailing role, who a) formulates the assignment and b) monitors how it is carried out on behalf of the pension fund board.

Although practical implementation does come with more responsibility for the end result, it's the kind of responsibility that is directly related to the PFZW participants' objectives. This increases alignment.

The pension fund board will predominantly direct on a strategic level but nevertheless maintains grip on the implementation. The investment manager (PGGM), for example, is commissioned pursuant to clear frameworks within, but he has to fulfil his assignment, i.e. in terms of financial return, as well as risk, sustainability and the impact targets set for certain topics. He will have to account for how each of the investment decisions he's made contributes to the objectives set and whether they remain within the boundaries of the frameworks he has to operate in. He will also demonstrate the added value in terms of net return, risk and the goals for responsible investing compared to the benchmark of a simple liquid investment portfolio. Independent reporting offers insight into the results attained on overall objectives, guideline verification as well as offering insight into how the portfolio components contribute at all levels.

**Cost Efficiency**

We're foreseeing a reduction in cost due to the investment chain being shortened, because of an increase in direct investments not requiring any layered structuring and also as a result of increased digitisation. At the same time, however, investments will also need to be made to accommodate successful sustainable value creation. We're aiming to warrant cost efficiency by seeking out partnerships in a multitude of areas. The aim there is to seek out the most objective-oriented approach for PFZW's participants.

**PFZW's own unique investment manager**

The investment organisation is a results-oriented entity centred around PFZW's specific objectives and desires. PGGM shows itself sufficiently agile to the extent that it can anticipate, and react to, outside developments. Its employees give it everything they've got in their quest to ensure that participants are able to enjoy a good pension and have a positive impact on the world. The high level of engagement with the participants, and the unique investment approach, have made PGGM an attractive employer.

## 6 Zooming in on the different dimensions

PGGM has identified six dimensions shaping its *Vision 2030* investment management chain. Together, these dimensions will help realise the objective:



1. The investment process;



2. The matching governance and organisation;



3. people and culture;



4. digital transformation;



5. partnerships and outsourcing.



6. financing model;



### 6.1 The investment process

**There are five central elements to the 2030 investment process, i.e.**

- (1) Targeting long-term net return and risk objectives;
- (2) Full integration of financial and sustainability both into PGGM's investment objectives and implementation.
- (3) All potential investments compete for inclusion in the portfolio;
- (4) We will not merely add investments to the portfolio that already contribute to sustainable value creation, but will also welcome investments whose value creation we'd like to enhance;
- (5) Full responsibility for the realisation of the client's financial, as well as sustainability, objectives shall comprehensively and exclusively reside with a single PGGM committee.

#### Targeting long-term net return and risk objectives

The client formulates the financial component of the assignment in the form of absolute return and risk objectives on a multi-year horizon. The point of departure in that respect shall be the required return resulting from the ALM (ambition, premium, risk attitude). The traditional benchmark is no longer required as an assignment. Liquid benchmarks are used as comparison, to show to what extent the total portfolio is better than this reference.

#### Full integration of financial and sustainability both into PGGM's investment objectives and implementation

The assignment commissioned to the investment manager (PGGM) shall include both financial as well as sustainability aspects; their implementation shall also be comprehensive, allowing the return, sustainability, risk and costs dimensions and their mutual relations to always remain prevalent in the investment decision-making process.

#### All potential investments compete for inclusion in the portfolio

The client's objectives and risk attitude shall serve to generate a single uniform scorecard with which to 'score' all (potential) investments. PGGM shall not only score its (potential) investments for their economic value, but will also award it a positive or negative score for its sustainability

contribution to identified transitions. The portfolio consists of (groups of) investments contributing to sustainable value creation. In constructing the portfolio, PGGM will direct the attainment of the objectives set in a top-down manner, while taking a bottom-up approach to making conscious decisions. Each investment we add to the portfolio is the result of a conscious decision we are able to be accountable for. Note that this will generate a portfolio that will not look like anything resembling the standard market index and will contain less investments all together. Should either the diversification or the net return so require, we could add investments to the portfolio that are financially more attractive but offer a materially less positive contribution to society and the environment. Any investments we can no longer justify will be removed from the portfolio.

**We will not merely add investments contributing to sustainable value creation to the portfolio, but will also add investments whose value creation we'd like to enhance**

In a limited number of areas important to the participant, and where we are able to also create effective impact, we will also add investments whose sustainable value creation we'd explicitly like to enhance. This will require us to set an explicit impact objective. Some of those areas are already investable, but in other areas we'll have to increase the investability, or, move to create such potential by possibly teaming up with third parties. Direct private investments in the real economy are a valuable component in terms of their net return and impact.

**Full responsibility for the realisation of the PFZW's financial, as well as sustainability, objectives shall comprehensively and exclusively reside with a single PGGM entity**

The assignment containing all of the explicit return, risk and sustainability objectives PFZW is commissioning us to carry out, will be accepted by an executive who shall solely carry full end responsibility for the assignment and its success. There is to be a single table where all decisions are eventually made. That will in practice, however, still see decisions partially delegated to (a small number of) clusters.



## 6.2 Governance

**There are three central elements to 2030 governance:**

- (1) The pension fund board, acting on behalf of the participants, formulates the investment assignment, directing at a strategic level;
- (2) The investment manager accepts the assignment he is commissioned and will direct the entire organisation towards attaining PFZW's objectives;
- (3) There is an independent countervailing role.

**The pension fund board, acting on behalf of the participants, formulates the investment assignment, directing at a strategic level**

The pension fund board represents its participants and remains in close contact with them, to allow it to gain a sound understanding of their preferences. This also applies to risk attitude and the sustainable investment objectives.

The investment assignment is outlined on its main elements, i.e.

- An absolute return and risk target, to be determined within the confines of the new pension system; This could, for example, see a return target set at inflation +3% for a five-year period at a maximum loss of 30%;
- Specific sustainability objectives, e.g.

- Targets for making a sustainable, positive contribution to the economy, society and the environment;
  - Make sure that you attain your SMART targets for the various transition topics (healthcare, housing, climate change, public health);
  - An itemised list of themes that are to be explicitly excluded from the portfolio.
- Overall portfolio preconditions, e.g., diversification guidelines, exposure parameters, liquidity preconditions, cost budgets, etc.;
- Reporting requirements, which include: being able to provide an *ex ante* and *ex post* justification itemising each individual investment's contribution to the objectives set.

The objective may be coupled to a 'simple liquid' benchmark portfolio (which in its simplest form could, for example, comprise of a broad share index basket and a liability matching portfolio, but there are a range of different variants available under the new pension system). The benchmark portfolio's role is somewhat different to that of the 'traditional' benchmark. The benchmark portfolio no longer acts as the blueprint for constructing the portfolio. What it does do, however, is that it compels the investment manager to explicitly indicate where he expects that his investment choices will yield added value. What additional risk premiums will his choices yield? What justifies qualifying a particular type of implementation as contributory to attaining the objectives set? Overall management of, reporting on and assessing of investment potential is focussed on absolute return and risk, as opposed to relative return and tracking error.

### **The investment manager accepts the assignment in full and will direct the entire organisation towards attaining PFZW's objectives**

PGGM Investment Management accepts the assignment PFZW has commissioned it in full and will gear all its efforts towards attaining the full objectives set. PGGM will to that end organise itself in such a way that it keeps all of its expertise in close proximity of each other - everything we do serves the participants and the objectives set by the pension fund board. We are exclusive to the client. PGGM is THE agent for the fund and its participants and shall serve no other interests, nor seek to fulfil any other agenda.

The investment manager will employ a layered decision-making structure. Optimising the level of contribution to the overall portfolio objectives remains central at all levels. We distinguish between decision-making at the investment committee level and decision-making at several large clusters.

- PGGM has one table centrally directing the organisation's efforts towards attaining the client's objectives. Responsibilities include, e.g., allocating a risk budget across the various risk premiums, monitoring practical implementation at the cluster level and cluster contribution to the objectives set.
- The clusters will add investments to the portfolio with the highest possible rate of contribution to the client's objectives. Our investment managers know what each individual investment's contribution is to the objectives set and the extent to which they compete with other potential investment options. That will invariably also mean that a conscious decision will at times be made to (temporarily) terminate an investment. A conscious decision will also be made as to what duties PGGM will task itself with effectuating and what duties it will outsource to third parties. Flexibility is offered in how risk premiums are built up, i.e. whichever best serves the objectives set, be that stocks, bonds, public or private.

### **There is an independent countervailing role**

We have centralised the independent countervailing role that supports the pension fund board in formulating the assignment and monitoring how it is carried out. This is a process that is independent of the checks & balances (e.g. compliance checks, internal audits, monitoring and

reviewing choices made by subcontractors) applied to the investment process by the investment manager himself.



### 6.3 People and Culture

Everything we do in 2030 is done serving the higher cause. The individual investments are no longer merely relevant by themselves. What's important is their impact on both the overall portfolio and society. This calls for a result-oriented approach, a broad view, connecting with other disciplines and being aware of what goes on in the real economy. Permanent education both of the individual as well as of the organisation has become relevant more than ever before. Having a diverse skill set and (cognitive) diversity contribute to arriving at better solutions and making better decisions. This places demands on our culture, our people, our teams, their leaders and the organisation as a whole.

#### There are five central elements to 2030 People and Culture

- (1) A result-oriented culture in which everyone joins forces for the common cause;
- (2) Investment professionals with deep, specialised knowledge and expertise (including ESG expertise) and professionals endowed with knowledge and expertise that ventures beyond their professional domains;
- (3) Our teams enjoy expertise in their own domains, yet are also able to make a connection with other teams and other areas of expertise;
- (4) Our leaders build teams that are always looking to expand their knowledge and expertise, have diverse skill sets at their disposal and make the best use of their cognitive diversity.
- (5) The organisation will invest in permanent education and will stimulate a healthy work-life balance.

#### A result-oriented culture in which everyone joins efforts for the common cause

PGGM employees have a common goal: everything we do, all the solutions we come up with, all the decisions we make, serve that common goal. Our company culture stimulates people to take responsibility and will correct those failing to do so.

PGGM's culture stimulates creativity and collaboration and will offer those who undertake to do so the recognition they deserve. We are geared at attaining PFZW and its participants the best long-term solution.

Education in whatever form is key and will be stimulated and facilitated. We believe that having (cognitively) diverse teams will make for better solutions and better decisions.

#### Investment professionals with deep, specialised knowledge and expertise (including ESG expertise) and professionals endowed with knowledge and expertise that ventures beyond their professional domains

Putting the participant first is in the PGGM employee DNA. They feel engaged with the healthcare sector; will look to get the participant the best possible pension and have fully incorporated sustainability and financial returns in their thinking and skill sets. A PGGM investment manager will always undertake to find out everything there is to know about his investments. He will understand how the investment impacts both the overall portfolio and society. Our professionals are always eager to acquire more knowledge and expertise and employ a growth mindset.

We employ professionals with deep, specialised knowledge and expertise, as well as those endowed with knowledge and expertise that ventures beyond their professional domains. This isn't restricted to investment expertise, but will also pertain to topic-specific expertise, e.g. expertise on



transitions, or how to utilise complex data. Along with their investment skills, our investment professionals enjoy a broad skill set that includes digital skills and soft skills, such as asking the right questions, problem solving, communicating, teamworking and innovating.

### **Our teams enjoy expertise in their own domains, yet are also able to make a connection with other teams and other areas of expertise**

Our teams enjoy expertise in their own domains, yet are also able to make a connection with other teams and other areas of expertise; Our teams apply their real economy expertise to their decision-making. Cognitive diversity makes for better solutions and better decisions.

There are three main functions, i.e. investing, innovating and technology. The innovators combine investor and technological expertise to focus on improving investment processes and are able to have their teams work together.

### **Our leaders build teams that are always looking to expand their knowledge and expertise, have diverse skill sets at their disposal and allow their cognitive diversity to flourish where it can**

Our leaders enjoy a diverse skill set and are able to build self-educating teams that enjoy a similarly diverse skill set able to utilise their cognitive diversity to the fullest. Our leaders and teams combine their detailed expert knowledge and skills with a more broader scope aimed at collaboration. Moreover, our leaders have also shown themselves able to carry a clear mission and vision, provide employees with the right context and are able to quickly adapt to a situation and deal with a crisis.

### **The organisation invests in permanent education and will stimulate a healthy work-life balance**

The organisation invests in permanent education and recognises that learning on the job, taking courses, mentor and peer support are important job components. This isn't restricted to job-specific expertise, but also applies to soft skills. Another element central to our service provision is that we want our employees to know, and engage with, the industry. PGGM does this by stimulating such initiatives as working visits and conducting participant surveys. The employer stimulates employees having a healthy work-life balance that is mindful of employee preferences and the various life stages the members of its diverse workforce find themselves in. Hybrid working arrangements are a part of that.



## **6.4 Digital Transformation**

### **There are four main components to 2030 Digital Transformation**

- (1) Data and analysis systems are developing across three layers;
- (2) We are mainly adopting a buy/ally strategy to our system development endeavours;
- (3) The transformation affects company units in different ways
- (4) The transformation calls for a different type of investor.

### **Data and analysis systems are developing across three layers**

Data and analysis systems are developing at a ferocious pace. We are seeing a three-layered model coming into being:

Layer One: Data collectors - 'a basic level of large global data sets'

Layer Two: Data processors - enhancement of Layer One; general analyses and algorithms

Layer Three: Data users - collect the data you need from Layers One and Two and run your own analyses

This should be seen in light of an increased use of Artificial Intelligence and importance of cybersecurity.

### **We are mainly adopting a buy/ally strategy to our system development endeavours**

PGGM elects to mainly adopt a buy/ally strategy to its internal system development endeavours.

This is the swifter and more agile option. Moreover, this presents us with the option of being able to acquire the best alternatives available in those areas where such is found needed.

PGGM is actively investing in the development, and management, of its own expertise and talent.

This applies to Layer Three, in particular, as this the layer where value is added.

### **The transformation affects company units in different ways**

The digital transformation greatly impacts the investment process and the role of the investor. This development also offers new opportunities in maintaining the relationship with the participants and in communications between the participant and PGGM.

We will operate a fully automated investment transactions chain (i.e. the transaction itself, its processing, accounting, reconciliation, legal and compliance checks). This isn't something investors are employing their own systems for. This is done using global platforms. What level of automation or manual processing is required, differs from one type of investment to the next, something that can be witnessed in the difference between public and private market investments.

Digital infrastructure is very important in communicating with the participant (and goes both ways, i.e. communicating information to the participant, as well as gathering her preferences).

Comprehensive portfolio management and the direction and monitoring of (internal as well as external) parties will be heavily reliant on new data and analysis systems.

### **The transformation calls for a different type of investor**

The 2030 investor will be the investor 2.0., i.e. they don't all need a degree in programming or data analysis. Being able to gauge how and what data/analysis to deploy in the pursuit of the pension fund's objectives is a constituent component of the investor's skill set. This is about having the expertise to allow one to find the 'truth' and the logic behind the data and the algorithms and to subsequently be in a position to understand their relevance. The added value can be found in the combination of artificial intelligence and human intelligence.



## **6.5 Partnerships**

### **There are two central elements to 2030 partnerships, i.e.**

- (1) Partnerships are of vital importance;
- (2) Distinctive and strategic choices in "make-buy-ally"

### **Partnerships are of vital importance**

This Vision 2030 and the ongoing developments in the investment management sector (e.g. sizing, digital transformation) call for investing in specialist expertise. Added to this is the fact that developments in systems, for example, and data usage are evolving rather rapidly and that these require sizeable investment. To be successful at that will require both scale and size. And sometimes the high rate at which developments are evolving will mean that such investments may not even be recouped. Teaming up with others is vital to remain able to operate successfully.

### Distinctive and strategic choices in “make-buy-ally”

We make distinctive and strategic choices in what we are adamant about taking on ourselves (“make”); what PGGM is looking to outsource elsewhere (“buy”) and what it would like to maintain control over; and those things we're looking to enter into partnerships with others over (“ally”). We're looking well into the distance in that respect, as we and PFZW agree on choices and arrangements to put in place for the longer term. We also conduct short-term evaluations, but have these focus on the right objectives and criteria, checking to see if they still match the considerations that drove us to make the choices we made in the first place. We are neither in a position, nor would we want to be, to preselect any *make-buy*, or *ally* choice and will run a specific analysis before doing so.

The most important core processes, such as overall portfolio management, will, of course, remain solely with PGGM. What we will do in order to optimise such processes is to quite regularly employ partnership arrangements and externally developed systems.

We will only team up with parties who have adopted a similar set of objectives. Any successful partnership requires a win-win result for all involved. Partnerships can add value in terms of cost efficiency, buying power, sharing of expertise, comparing best practices and innovation.

We'll take matters on board ourselves wherever we feel that PGGM's management can make the difference and where it best serves the objectives set by PFZW.

We foresee disintermediation in private markets with increased collaboration between asset owners. The year 2030 will see a group of like-minded institutional investors directly investing in the real economy. Every investor enjoys his own specific expertise. Depending on the nature of the investment in question, one of the investors will take on the leading role, with the others acting as joint investors.



## 6.6 Financing Model

### There are four main components to the 2030 financing model

- (1) Comprehensive management of the total cost of the investment management chain;
- (2) A recontracting and SLA cycle respecting of a long-term relationship;
- (3) A market price +/- fee;
- (4) Third parties to be charged market price fee.

#### Comprehensive management of the total cost of the investment management chain

This comprises both PGGM expenses as well as third party expenses. Comprehensive cost management is in the interest of participants and PGGM has committed to putting in its best efforts to continue to seek out the best value for money option for every Euro it spends within the confines of the agreed policy frameworks and quality standards.

#### A recontracting and SLA cycle respecting of a long-term relationship

Every six years, PFZW and PGGM will discuss and document their recontracting negotiations. Their Service Level Agreement will be renewed once every three years. These cycles are respecting of the long-term nature of their relationship. Any changes to total assets managed and/or indexation will automatically result in changes to the agreed multi-year fees.

**A market price +/- fee**

PGGM IM's fee per product (cluster) is calculated pursuant to a market price +/- model. Said fee contains fixed as well as variable components and depends on the type of service rendered and the level of flexibility shown in adapting to workload. PGGM does not aim to make a profit on its investment management chain services. The financing model does, however, award PGGM a margin on the services it renders PFZW. One of the reasons it is awarded that margin is to allow it to meet its equity requirements. Any excess margin will periodically be settled with PFZW. The model does not boast any performance-related elements. Full transparency will be observed in relation to cost model results, with these shared in full with PFZW.

**Third parties to be charged market price fee**

In the event that the strategic choices made in respect of *make-buy-ally* were to suggest that PFZW's interest would be best served by PGGM outsource investment management services to third parties in certain areas, PGGM will agree a fair market price fee with those third parties.

## 7 Next Steps

The developments discussed are moving at a rapid pace and have a great deal of impact. The future scenario depicted in *Vision 2030* calls for significant changes to be made. Though this document is entitled *Vision 2030*, the time to act on it is now.

### **PGGM and PFZW's shared vision of the future**

The first step to take next is to share this Vision with PFZW and to check to whether PFZW subscribes to the view detailed in the *Vision 2030* document. Do we recognise the same need for change? Do we share the direction this would require us to take? The first time this has been discussed is during a special session with PFZW's board on 25 June. We are aware that PGGM has already been deep diving into this for several months now and that it is only natural that the *Vision 2030* document will raise a large number of questions.

In some areas the question will be as to whether PFZW subscribes to the objectives set. Coming up with a good strategy that serves PFZW is PGGM's job and that could include, e.g. digitisation, people and culture and partnerships.

Other subjects will upon first inspection see a need expressed for a joint deep dive. The *Vision 2030* document, for example, can be found describing a new paradigm as to what defines a pension fund portfolio that can be deemed serving its objectives. We are well aware that PFZW's current investment beliefs aren't based on that paradigm. Moreover, changes to governance and integral portfolio management are complex processes and require a joint, more in-depth, analysis. PFZW itself will also need to be convinced of the investment approach described being necessary to remain able to offer the participants a good, affordable, and sustainable pension over the next decades.

### **Converting vision into strategy**

The vision is exactly that, a vision of the future. It doesn't explain how to achieve that vision. The vision will have to be converted into strategy. The strategy will comprise a more detailed design of a matching investment process, along with a matching organisational structure, governance, people, culture and partnerships. En route to 2030, short-term goals will also be set, with the necessary steps taken to allow the formulation of an integrated investment management process OGSM.

## Appendix: Inspiration Sessions - Overview

Participating PGGM employees prepared themselves by attending the following inspiration sessions:

### The New Pension Contract

Dick Boeijen & Stef Vermeulen (Master Actuarial & ALM PGGM), Paul Todd (Director of Investment Development and Delivery, National Employment Savings Trust (NEST))

Related Publication(s): "Looking after members money", NEST publications, 2020

### Fostering the relationship with members

Lisa Brügger (Professor for Financial Services at Maastricht University)

Related Publication(s): *Meer keuze leidt niet automatisch tot hogere pensioenbetrokkenheid*, Lisa Brügger & Thomas Post, Netspar Brief, editie 15, December 2018

### New collaboration models

Ashby Monk (Executive and Research Director, Stanford Global Projects Center)

Related Publication(s): *Document for the Institutional Investors Roundtable, Strategy Session Fall 2019*, Ashby Monk, 2019; *Reframing Finance*, Ashby Monk, Stanford University Press, 2019.

### The total portfolio approach

Marisa Hall (Co-Head of the Thinking Ahead Institute, Willis Towers Watson)

Related Publication(s): *Total Portfolio Approach*, Thinking Ahead Institute, 2019.

### Governance models

Salvatore Cantale (Professor of Finance, IMD)

Related Publication(s): *The four pillars of board effectiveness*, Didier Cossin & Jose Caballero, 2014, *High performance boards*, Didier Cossin, Wiley John + Sons, 2020.

### The value of stewardship

Alex Edmans (Professor of Finance, London Business School)

Related Publication(s): "How great companies deliver both purpose and profit", Alex Edmans, 2019, "Grow the Pie" Alex Edmans, Cambridge University Press, 2020.

### Sustainability 3.0

Kristian Fok (CIO, Cbus Super Fund Australia)

Related Publication(s): "Building a better future", Cbus Annual Integrated Report 2020.

### Geopolitics

Rob de Wijk (Professor of Institutional Relations and Security, Leiden University)

Related Publication(s): *Hoe China en Rusland ons ook in 2021 uit elkaar spelen*, Rob de Wijk, Financieel Dagblad, 14 December 2020; *De nieuwe wereldorde*, Rob de Wijk, Uitgeverij Balans, 2019.

### Governance of the investment process at PKA

Michael Nelleman (CIO, PKA) & Michael Flycht (Deputy CIO, PKA)

### Digital transformation

Dan Simmonds (Senior Manager, Deloitte) & Tyler Cloherty (Senior Manager, Casey Quirk)

Related Publication(s): "Technology for the C-Suite", Casey Quirk, 2020.