Financial changes in the 1st quarter of 2018

Indexation and the possible reduction of pensions and pension accrual

SPF aims to increase pensions every year and to let them grow in line with inflation or wage-increases. This is called indexation. The financial position of the fund and the legal requirements that apply to indexation play a major role during the annual decision-making process.
The financial position of the pension fund is expressed in the funding level. The funding level is the ratio between the total funds assets and all its pension obligations.

At the end of every year, the Board makes a decision based upon the so-called ‘policy funding level’; this is the moving average of the funding levels of past twelve months.
The interest rate and the expected development of the interest rate also play an important role in the Board's decision on indexation. A higher or lower interest rate ensures respectively a higher or lower funding level.

The funding level and the policy funding level at the end of each year determine whether or not indexation can take place or whether the pensions and accrued pension entitlements need to be cut.

A policy funding level of at least 110% is required to be able to partially index pensions.

Full indexation is possible with a policy funding level of 127% and above.

If the funding level is below approximately 96%, the Board may decide to cut pensions and the accrued pension entitlements.

If the policy funding level and the funding level are lower than approximately 104% at the end of 2021 and the policy funding level is less than 104% every year until the end of 2021, the Board will need to make the decision to cut pensions.

Expectation for the coming years:

The funding level at the end of this quarter of 2018 was 112,3%, and the policy funding level at that time was 114,1%. In the long run (five years), the expectation is that partial - or even full - indexation should be possible again. Despite the fact that the risk of having to make reductions has become smaller, that risk cannot be ruled out.

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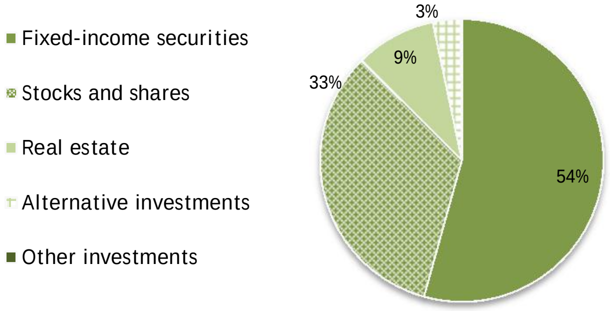
based on provisional figures

	2017 Q3	2017 Q4	2018 Q1		2017 Q3	2017 Q4	2018 Q1
Pension assets	2.520	2.585	2.544	Pension liabilities	2.190	2.254	2.265
Funding level	115,1%	114,7%	112,3%	Policy funding level	110,5%	112,9%	114,1%
Return as of 1/1 up to	4,1%	6,6%	-1,5%	Interest	1,6%	1,5%	1,5%

- The pension fund assets fell during the quarter to €2.544 million at the end of the quarter. The fund made a negative return of 1,5% on its total investments in this quarter of 2018.

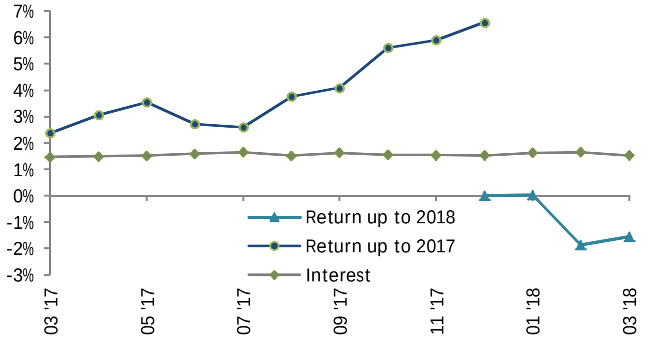
- The provision for pension liabilities amounted to a total of €2.265 million during the quarter, which is €11 million more than the amount of the previous quarter. The provision is the amount that must be available to the pension fund to ensure that it can cover its current and future pension liabilities.

- The pension fund assets are invested in various investment categories to spread the risks. A summary of the asset distribution at the end of this quarter is given below.

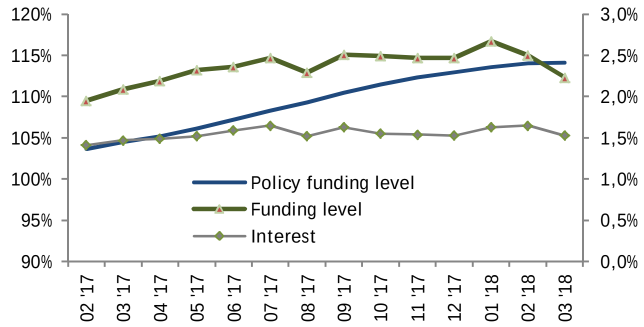


- The provision for pension liabilities is calculated on the basis of market interest, in line with the rules of De Nederlandsche Bank. These state that, if interest is falling the valuation of the provision for pension liabilities rises and if interest is rising, the provision falls. Interest was equal to last quarter; 1,5% at the end of the quarter.

Changes in the return and interest



Changes in the policy funding level and interest



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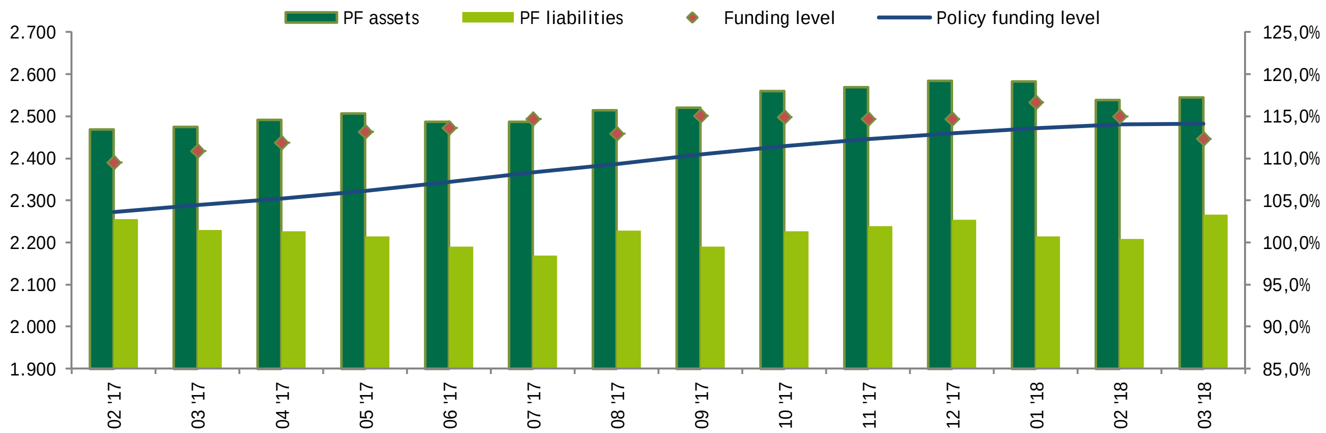
Financial changes in the 1st quarter of 2018

The funding level shows whether the pension fund's assets are sufficient to finance its future pension liabilities. At a funding level of 100% the pension fund can cover all of its (nominal) liabilities.

The funding level provides a snapshot of the financial position of the pension fund at a particular moment in time. However it changes constantly as a result of developments on the financial markets and changes in pension liabilities.

It is important to hold a reserve to allow for these changes in the financial markets and liabilities. The reserve is used, not only to cover the risks on the financial markets, but also to allow the fund to pay increases to members.

If its financial position allows, the fund can pay increases to maintain the value and buying power of members' pensions. It is therefore important that the funding level of the fund is high enough to cover the market risks and to finance the increases. For the fund, this funding level is 124.6%.



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The funding level is 112,3% and the policy funding level is 114,1%.

- New laws and regulations were brought in for pension funds to make pensions more stable and transparent.
- The new laws and regulations specify a different method of determining the financial position. This method is used to determine the policy funding level, which is the average of the last twelve monthly funding levels.
- As a result of the averaging of the funding level the changes in the investments and/or pension liabilities do not have a direct effect on the decisions to be made on the basis of the policy funding level. This moderates the effects of financial developments on the funding level, so that the policy funding level fluctuates less over time. The new laws and regulations therefore help to stabilize pensions.
- At the beginning of 2018 SPF has drawn up a new recovery plan. In case of a certain (low) policy funding level a recovery plan is compulsory for pension funds. In its recovery plan, SPF describes in what ways the fund plans to realize a higher funding level again. When first establishing its plan, SPF used cautious parameters. Since the recovery plan was drawn up, the situation has changed once more.

More information about the recovery plan can be found here.

Financial changes in the 1st quarter of 2018

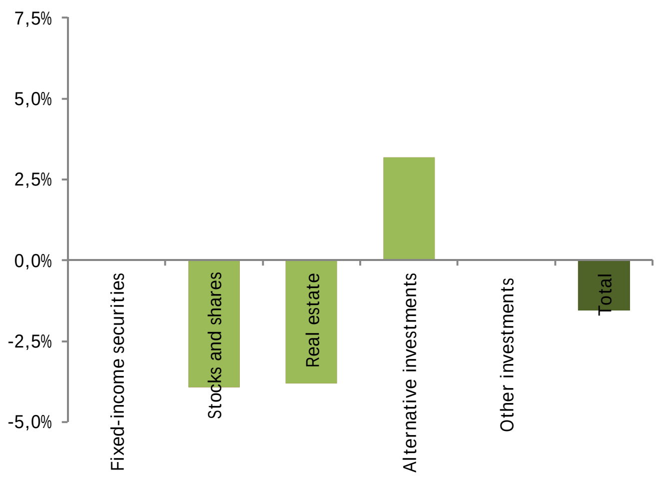
Investments for the first quarter of 2018

The return on investments helped to increase the pension fund assets and thus to improve the financial position of the fund.

- The fund made a negative return of 1,5% on its investments in this quarter of 2018.

- A summary of the pension fund's returns for each investment category up to the end of this quarter of 2018 is given below.

- The table below shows the monthly return* in 2018 for the Net Pension Scheme:



January	-0,1%
February	-1,9%
March	0,3%
April	
May	
June	
July	
August	
September	
October	
November	
December	
Return up to	-1,7%

* net return (after costs)

The total is a weighted average of the different investment categories.

Contact details

DSM Pension Services administers the pension scheme and manages the fund's assets. If you have any questions about this information or other pension matters, please contact us:

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