

Stichting Pensioenfonds SABIC Investment Beliefs (March 2018)

Financial markets

- 1. SPF's ambition is to achieve a pension that is adjusted to the wage index/inflation-proof for its members. Taking investment risks in the portfolio is necessary to be able to fulfil that ambition.**

Why? Pension contributions only finance a part of the full pension ambition. The Fund therefore needs additional financing, which it expects from investment returns, for which it is necessary to run the corresponding risks. Investors in equities and corporate bonds, for example, run an investment risk and are rewarded accordingly. Due to the volatility of the risk premiums and the mutual correlations, diversification across the various risk sources and investment categories is essential.

Consequence: To fulfil the objective of the pension fund, the required return and the extent to which risks must be taken need to be determined. The adoption of the strategic investment policy, including the choice and size of the investment categories to be used, is the starting point for this purpose.

- 2. Due to its long investment horizon, SPF can profit from the available risk premiums, including illiquidity.**

Why? Part of the pension fund's invested capital can be illiquid because the pension fund is a long-term investor and the payment of its commitments are spread and planned over time.

Consequence: SPF allocates part of the capital to illiquid investments.

- 3. Diversifying investments across different investment categories reduces investment risks.**

Why? Given that correlations are generally lower than 1, the risk profile of the total investment portfolio can be reduced by combining investment categories.

Consequence: The investment portfolio consists of different investment categories whose mutual correlations are lower (than 1) in the long term.

- 4. Financial markets display 'mean reversion' behavior in the longer term. Mean reversion assumes that although the value of investments fluctuates, the return tends towards an average value in time.**

Why? Capital markets are unpredictable and risk premiums can vary over a longer period. In the longer term, the nominal interest, for example, tends to be compensation for real economic growth, supplemented by an inflation component. In relation to the risk premiums, this compensation for additional risk is realized in the longer term.

Consequence: Through temporary deviations from the long-term average, additional returns can be achieved by granting tactical policy latitude.

Governance

5. The investment policy is tailored to the intended pension result of the members, with due regard for their risk attitude.

Why? To be able to pay all pensions, now and in the future, the pension fund must have sufficient capital in relation to its commitments. For this reason, the Board tailors the investment policy to the nature and extent of the pension fund commitments (including the indexation ambition).

Consequence: The strategic investment policy is determined by means of ALM analyses, for which purpose the total balance serves as input. Additions and changes to investment categories are not evaluated in isolation but in conjunction with the entire balance sheet.

6. The investment policy and investment portfolio must be transparent and clear, the investment decisions that have been made must be easy to explain, and the costs must be justifiable.

Why? The building blocks of the investment portfolio must be understood by the Board and its supervisory bodies and be easy to explain to the members. The Board should not spend disproportionate time and capacity on one investment category, mandate, or position and excessive use of external expertise, for example in the legal or tax area, should be avoided.

Consequence: The pension fund assesses the existing strategic investment policy and policy adjustment proposals based on complexity and the ease with which these can be explained. The investment costs must fit within the parameters set by the Board for this purpose.

7. Management and administration have the same objective, based on a partnership.

Why? It is important that the policy and its implementation are properly aligned and there are no conflicts of interest. This is achieved through a partnership with an administration organization that operates on a non-profit basis. High-quality and integrated services benefit from insight and knowledge in the area of strategic advice, fiduciary management, and portfolio management.

Consequence: SPF uses an integral service provider. Other external service providers will be engaged if this integral service provider lacks knowledge or cannot provide adequate quality in certain areas. Other external managers may be selected for the portfolio management of certain parts of the investment portfolio.

Investment process

8. The strategic investment policy largely determines the achievable return and corresponding risk.

Why? The main investment choice that the Fund makes is determining its strategic investment policy. By spreading the investment categories and their risk sources, the overall risk can be reduced without this being to the detriment of the anticipated return. The Board therefore devotes a great deal of attention to compiling the strategic investment policy.

Consequence: Adjustments to the strategic investment policy will be assessed on the added value at total portfolio level via portfolio construction. Accordingly, investments will be added only if they can be easily explained and have sufficient minimum weight within the investment portfolio to have a clear added value at portfolio level.

9. Active management can make a valuable contribution towards the return after costs

Why? Taking active positions in relation to standard weighting can be worthwhile because:

- Markets can overreact, and the Fund can capitalize on this
- Benchmarks lead to herd behavior and inefficient positioning
- As a long-term investor, the Fund has the opportunity to 'ride out' a situation
- The choice between active and passive management is made consciously each time.

Consequence: The Board provides an active risk budget to exploit the above inefficiencies. This can be done through Tactical Asset Allocation and active management within the mandates. The Board determines whether an investment category or overlay is filled actively or passively. The interest rate risk and currency risk are managed passively because risk control is the main aim in this regard.

Sustainability

10. Integrating sustainability factors in the investment policy can help SPF achieve its long-term investment objectives.

Why? In the Fund's opinion:

- sustainability is a form of long-term risk management, for risks that are not financial and can contribute as such to the Fund's objectives;
- the integration of sustainability factors in the investment process ensures better investment decisions, by which the return/risk profile of the investment portfolio is expected to improve;
- there must be a drive towards transparency of the pension fund in the area of sustainable investment policy.

Consequence: SPF has adopted a policy in the area of Socially Responsible Investments that consists of exclusions, transparency, corporate governance, and ESG integration in mandates.