

# Annual Report 2008

**PMT**  
pensioenfonds  
Metaal & Techniek



**Stormy**

**PMT**  
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# weather



# Foreword

After a promising start to 2008 – so much so that the fund was able to apply make-up indexation – the credit crunch impacted mercilessly and with unexpected severity on the global economy in the second half of the year. Pensioenfonds Metaal en Techniek (PMT), the pension fund for the metalworking and mechanical engineering sector, faced rapidly worsening conditions.

The effects on the fund were significant, presenting the Managing Board with a number of difficult choices. It was decided at the end of 2008 to increase the contribution rates for 2009 and forgo indexation. It also became apparent that the fund would have to submit a recovery plan to the Nederlandsche Bank in 2009.

Although it spreads risks through diversification, PMT has learned from the credit crunch that this approach does not provide sufficient safeguards in such exceptional economic conditions. The effects of the economic recession on PMT have been exacerbated by worldwide action to cut interest rates. Given the fund's relatively young age profile, lower interest rates have had a significant effect on the liabilities. PMT takes the view that the prescribed method of measuring liabilities does not take account of the fund's long-term outlook.

PMT is closely following the political debate on changes to the pension regulations and the state old-age pension (AOW). Some of the plans pose a threat to the continued existence of and support for the pension scheme. PMT is also concerned at the government's growing involvement in the debate. In PMT's view, the current problems can only be resolved through effective cooperation between employers, employees, government and regulator.

The challenge for 2009 is to achieve the targets set in the recovery plan, while continuing to serve the sector's pensioners, employees and employers.

For the Managing Board of PMT  
*Peter van der Linden, representing employers*  
*Jan Berghuis, representing employees*





## Employers and participants

(numbers)	2008	2007	2006	2005	2004
<b>Affiliated employers with staff</b>	34,516	33,735	33,302	31,293	31,230
<i>Participants</i>					
Active participants <sup>1)</sup>	424,940	417,772	402,450	340,286	341,191
Non-contributing participants	617,322	606,568	604,207	590,030	591,249
Pensioners	157,691	150,918	141,217	137,645	130,589
<b>Total participants</b>	<b>1,199,953</b>	<b>1,175,258</b>	<b>1,147,874</b>	<b>1,067,961</b>	<b>1,063,029</b>

## Pension liabilities and pension capital

(x 1 million euro)					
<i>Pension liabilities <sup>2)</sup></i>					
Active participants	16,036	10,812	11,262	10,688	9,430
Non-contributing participants	5,340	3,651	3,713	3,456	3,056
Pensioners	11,776	10,177	9,593	8,774	7,812
<b>Total pension liabilities (A)</b>	<b>33,152</b>	<b>24,640</b>	<b>24,568</b>	<b>22,918</b>	<b>20,298</b>
Total pension liabilities	3.51%	4.85%	4.26%	3.70%	4.00%
<b>General reserve (B)</b>	<b>-5,064</b>	<b>10,057</b>	<b>6,976</b>	<b>5,360</b>	<b>2,921</b>
<b>Pension capital (C = A + B)</b>	<b>28,088</b>	<b>34,697</b>	<b>31,544</b>	<b>28,278</b>	<b>23,219</b>
<b>Coverage ratio <sup>3)</sup> (D = C/A)</b>	<b>84.7%</b>	<b>140.8%</b>	<b>128.4%</b>	<b>123.4%</b>	<b>114.4%</b>

## Contributions and benefits

<i>Contribution percentages</i>					
Old-age and partner pension <sup>3)</sup>	25.2	26.0	26.8	17.0	17.0
Early retirement pension <sup>4)</sup>	n/a	n/a	n/a	8.4	7.5
<i>Contributions</i>					
Old-age and partner pension	1,644	1,599	1,537	727	696
Early retirement pension	-	2	2	772	670
<b>Total contributions</b>	<b>1,644</b>	<b>1,601</b>	<b>1,539</b>	<b>1,499</b>	<b>1,366</b>
<i>Benefits</i>					
Old-age and partner pension	647	568	497	454	405
Early retirement pension	478	497	423	406	375
<b>Total benefits</b>	<b>1,125</b>	<b>1,065</b>	<b>920</b>	<b>860</b>	<b>780</b>

<sup>1)</sup> The age at which employees are able to join the PMT pension scheme was lowered in 2006 to enable those between 18 and 24 to participate. Until year-end 2005, the minimum age was 25.

<sup>2)</sup> Future pension liabilities are valued from 2006 at market interest rates. The figures for 2004 and 2005 have not been restated.

<sup>3)</sup> Contributions are charged at this rate on that part of a participant's annual pensionable salary which lies between the contribution-free allowance of € 14,520 (2007: € 14,224) and an upper limit in 2008 of € 70,809 (2007: € 70,108). Contributions are charged at 16.7% on the pensionable salary in excess of the upper limit.

<sup>4)</sup> No contributions have been charged since the early retirement pension was terminated in 2006.

## Other results

(x 1 million euro)	2008	2007	2006	2005	2004
Investment return	-7,277	1,911	2,596	4,308	2,375
Inward fund transfers	316	819	155	220	121
Outward fund transfers	118	99	65	73	71
Costs (including investment costs)	101	111	107	101	91

## Investments

<i>Composition of portfolio at year-end <sup>5)</sup></i>					
Fixed-income investments	15,013	13,385	11,930	11,250	9,829
Equities	5,234	11,919	12,072	10,315	8,142
Real estate investments	3,874	4,644	4,251	3,275	2,926
Alternative investments	3,975	4,587	3,260	3,419	2,248
<b>Total invested capital</b>	<b>28,096</b>	<b>34,535</b>	<b>31,513</b>	<b>28,259</b>	<b>23,145</b>
<i>Composition of portfolio at year-end <sup>5)</sup></i>					
Fixed-income investments	53.4%	38.8%	37.9%	39.8%	42.5%
Equities	18.6%	34.5%	38.3%	36.5%	35.2%
Real estate	13.8%	13.4%	13.5%	11.6%	12.6%
Alternative investments	14.2%	13.3%	10.3%	12.1%	9.7%
<b>Total return per asset class</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<i>Total return per asset class <sup>5)</sup></i>					
Fixed-income investments	-7.1%	-0.3%	0.2%	8.2%	9.2%
Equities	-43.1%	8.7%	15.2%	31.5%	13.7%
Real estate	-15.6%	6.3%	22.9%	22.3%	17.4%
Alternative investments	-26.6%	25.3%	7.6%	19.9%	9.4%
<i>Split of return on total invested capital</i>					
Direct return	3.3%	3.2%	3.2%	3.2%	3.0%
Total return	-20.7%	5.9%	9.1%	18.5%	11.7%
<i>Z-score</i>					
Z-score per year <sup>6)</sup>	-4.23	1.14	1.09	1.59	0.51
Performance test	1.33	3.09	2.28	1.62	1.08

<sup>5)</sup> In the key figures and the Managing Board report, the asset classes (capital and result) are presented in the same way as the (strategic) investment policy is structured. Derivatives, cash and foreign-exchange results (including hedging) are therefore allocated to the asset class to which they relate. As a consequence, the invested capital and investment return per asset class shown in the key figures differ from those shown in the financial statements. In the balance sheet and income statement, the investments are classified by type of financial instrument. Another consequence is that part of the invested capital is accounted for in the balance sheet in other assets and liabilities (instead of investments). A further breakdown is given in the notes to the financial statements under investments (6) and investment returns (16).

<sup>6)</sup> The performance test parameters were changed in 2008. The minimum score was raised from -1.28 to 0.0 and the minimum five-year score was increased by 1.28. The comparative figures have been restated.

# Review

## **PMT Recovery plan**

PMT submitted its recovery plan to the Nederlandsche Bank on 1 April 2009. With the measures presented in the recovery plan, PMT expects to achieve the required minimum coverage ratio of 105% within five years. From that point on, the fund will be able to resume partial indexation. The fund's contribution rate will rise to a maximum of 18% of salary over the recovery period before falling again. Raising the contribution rate will ensure that both participants and employers assist the recovery. Participants, former participants and pensioners will also contribute by forgoing indexation. This approach is consistent with the principle of equitable balancing of interests. The Managing Board will constantly monitor the recovery and will take further action where necessary.

## **Contribution and indexation policy 2009**

The contribution and indexation policy for 2009 was adopted in December 2008. To restore PMT's reserves, employees and employers are being asked to pay a higher contribution in 2009, consistent with PMT's financial policy framework. Having been lowered in 2008, the actual contribution rate was raised by one percentage point on 1st of January 2009 to 15.1% of salary. This raised the contribution rate for 2009 to 27.3%, an increase of 2.1 percentage points compared with 2008. Contributions are charged at this rate on that part of a participant's annual pensionable salary which lies between the contribution-free allowance of € 15,004 and the upper limit of € 73,287. Contributions are charged at 17.7% on the pensionable salary in excess of the upper limit. The cost-covering contribution rate for 2009 has been set at 14.8% of salary.

Likewise consistent with the financial policy framework, pension benefits and accrued pensions will not be adjusted for inflation in 2009. If full indexation had been applied, pension benefits would have risen in line with the 2.96% increase in the retail price index (inflation) and the accrued pension entitlements of active PMT participants would have risen in line with the 3.5% increase in the wage index.

## **Asset management**

PMT manages the pension capital accumulated over the past decades by employees, employers and pensioners in the metalworking and mechanical engineering sector.

By investing this accumulated capital, the fund seeks to achieve a reasonable return at an acceptable level of risk. Without the return on the capital, it would not be possible, given current costs, to adjust the pension benefits and accrued pension entitlements for inflation. If the pension capital had been managed on a risk-free basis instead of invested over those past decades, either pensions would be smaller or contributions would be much higher. In other words, absolute security is not an affordable option. In the long term, investing the pension capital is necessary to ensure good, affordable pensions.

Risk is mitigated by widely diversifying the investment portfolio, by investing simultaneously on behalf of many generations and by operating an investment policy with a very long horizon. That all risk cannot be eliminated was made painfully clear in 2008, the worst year for investment in the fund's history.

### **PMT's results**

To measure the quality of asset management, PMT compares the actual return to a benchmark indicating the average return that should be generated by an investment portfolio with the same investment mix as PMT's. The fund's actual return in 2008 was -20.7%. In contrast to previous years, the actual return fell short of the benchmark return across practically all portfolio segments and the portfolio underperformed.

### **Corporate governance**

PMT believes that companies which treat their environment and their employees in a responsible manner have the best chance of long-term survival and the best prospects of good returns. For that reason, the fund adopted eight guiding principles in 2008 against which all investments are measured. They are based on the United Nations' Principles for Responsible Investment (UN-PRI), which PMT signed at the end of 2007, and other internationally respected codes and conventions.

### **Exclusion and dialogue**

The companies in which PMT invests are tested against the guiding principles. Where a company does not meet the criteria, a distinction is drawn between deficiencies that are inherent in the company's product and deficiencies in its production process. If the criteria are not met at product level, the company is generally excluded from the investment portfolio. If the deficiency relates to the production process, PMT seeks to enter into dialogue with the company. Such dialogue may cover such aspects as corporate governance, working conditions, child labour, human rights and environmental issues.

Acting on the fund's behalf, PMT's asset manager, Mn Services, engaged in communication, written and otherwise, with some 150 companies on corporate governance issues in 2008. In many cases, the conduct of this dialogue was outsourced to third parties. UK asset manager F&C engages with around 100 companies worldwide and the

Governance Platform is in contact with a score of European companies. The remaining contacts are handled by PMT itself, delegated to its asset manager Mn Services.

### **Voting policy**

From 2008 onwards, PMT votes at the shareholders' meetings of all the companies in which it invests worldwide. It pursues its own voting policy, based on its guiding principles. In 2008, this policy led to PMT voting against many of the resolutions proposed by the managements of investee companies. These mainly concerned anti-takeover defences, the appointment of non-independent non-executive directors, excessive powers, share issues and buy-backs and changes to remuneration policy. At shareholders' meetings in the US in particular, PMT voted frequently on environmental issues and social shareholders' resolutions. PMT supported most of these resolutions, where they did not relate to initiatives that the company had already taken or did not seriously jeopardise the company's continuity. A full summary of PMT's voting behaviour can be found on the fund's website.



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