Statement Concerning Investment Principles

Introduction

This ‘Statement Concerning Investment Principles’ (hereinafter: ‘Statement’) briefly describes the basic principles underlying the investment policy of Stichting Pensioenfonds Staples (hereinafter: ‘the Pension Fund’). These principles have been adopted by the Board.

In accordance with the applicable laws and regulations, the Statement discusses:
1. the objectives of the investment policy;
2. the risk attitude and the risk profile pursued;
3. the investment principles, in particular, the weighting methods applied to investment risks and the strategic allocation of the assets in light of the nature and duration of the Pension Fund’s pension obligations.
4. the organisation and procedures.

The Statement has been included as an annex to the Pension Fund’s Actuarial and Business Memorandum, and will be revised every three years. In addition, the Statement will be revised immediately if a major change in the investment policy occurs in the meantime.

The Statement will be provided upon request to a party with an interest in the Pension Fund.

1. Objectives of the investment policy

The Pension Fund is the Pension Fund for current and former employees of Staples Nederland Holding B.V. and its operating companies and associated enterprises (hereinafter: 'the affiliated enterprises’), and administers pension schemes for the financial consequences of retirement, disability and death. As a Pension Fund, the Pension Fund is responsible for the investment policy.

The Pension Fund makes investments based on the ‘prudent person’ principle. This is more or less in agreement with what the Dutch central bank, De Nederlandsche Bank (DNB), refers to as investing ‘soundly’. The investments are also subject to qualitative principles regarding safety, quality and risk diversification.

The objectives of the investment policy are consistent with the following: “realising as high a return as possible in the long term, based on a strategic asset allocation with an acceptable risk and taking into account the Pension Fund’s obligation structure”.

To ensure that these objectives are met, the Pension Fund, when determining the strategic investment policy, takes into consideration the provisions in and under the Dutch Pension Act (*Pensioenwet*), the obligation structure and the financing for the Pension Fund as stated in the financing agreement with the affiliated enterprise.

2. Risk attitude

The risk attitude of the Board is expressed in a prioritization of the various objectives, which is as follows – whereby some objectives are reasonably comparable as regards priority:
1. realisation of an inflation-proof pension and the intended pension result;
2. minimising the risk of reduction measures and the extent of a reduction;
3. stable funding ratio and maximisation of the funding ratio;
4. stable contributions;
5. minimising the level of contributions.

The risk attitude formulated by the social partners is expressed quantitatively via:
- short-term: the level and the bandwidth of the required assets that the Pension Fund must maintain;
- long-term: setting the lower limits for the pension result.

A bandwidth for the required short-term Pension Fund assets follows from the risk attitude. This is set (strategically) at 114% to 122%.

For the long-term risk attitude the Board sets the lower limits, in consultation with the social partners, by means of a qualitative substantiation and in line with the risk attitude. The feasibility test that the Pension Fund must conduct annually is used for this. The purpose of the feasibility test is to make a judgement about the expectations and risks of the pension ambition across a horizon of 60 years based on a scenario set published by DNB. In a feasibility test, the Pension Fund sets the expected pension result. The pension result measures the expected retention of purchasing power in relation to the accrued pension claims and pension benefits.

When conducting the feasibility test, three results are important with regard to testing the pension result:

6. starting from a situation in which the Pension Fund has the required assets: the median of the expected pension result;
7. starting from the actual financial situation: the median of the expected pension result; and
8. the maximum deviation compared to the median in the event of a “bad weather scenario”.

These lower limits are shown in the table below:

Starting position		
Balanced situation	Lower limit for expected pension result	95%
Actual position	Lower limit for expected pension result Maximum deviation in a bad weather scenario	95% 30%

3. Investment principles

3.1. The investment process

The Pension Fund is convinced that a strict and disciplined investment process is an essential condition for a consistent and successful investment policy which is in compliance with the objectives of the Pension Fund.

The investment process is understood to be a set of rules to supervise the preparation and the execution of the investment policy as well as the management and control of the investments. The Pension Fund expects all managers and staff members within the organisation of the Pension Fund to ensure that they act in compliance with the rules of the investment process.

Adequate expertise must be guaranteed in respect of all elements of the investment process. This therefore applies to policy development, policy determination, implementation and supervision of the realisation of the investment policy. If elements of the investment process are outsourced, the Pension Fund ensures that the relevant governing bodies also have sufficient expertise available.

3.2. Permitted investments

The Pension Fund does not in principle exclude any investment category, instrument or technique.
On the other hand, the Pension Fund does not cooperate in investment transactions that are prohibited, for example on the grounds of international law. In this context the Pension Fund has introduced concrete measures in the field of administrative organisation and internal control to observe antiterrorism legislation, in particular the Sanctions Act 1977 and the rules and decrees regarding financial dealings established on the basis of this Act.
The Pension Fund will also refrain from investment transactions if:

- this promotes punishable or morally objectionable conduct;
- this is directly related to a violation of human rights or fundamental freedoms.

The Pension Fund assesses each investment on the grounds of risk and return considerations in relation to the liabilities structure. This means that the Pension Fund will also consider an investment that in itself bears a high risk, but when combined with other investments may result in an improvement of the overall risk vis-à-vis the liabilities.

3.3. Principled framework in respect of the investments

The Pension Fund embraces the following Investment Beliefs in respect of the investments:

- the Pension Fund invests **exclusively in investment categories and products which it understands** and with which it feels comfortable owing to sufficient insight into the inherent risks;
- financial markets are highly but not wholly **efficient** as information processors;
- as a result of waves of sentiment and restrictions expressed in legislation, the valuations of segments of the capital market may attain values vis-à-vis their **long-term equilibrium values** such that, also in the light of the current situation in the financial markets, they may be used in opting for a strategic and tactical investment policy (for example changing asset allocation at main category level or shifting of allocation between Value and Growth within shares);
- by making use of **diversification** – spreading the investments over different investment categories – the return / risk ratio of the investments are improved, but under extreme circumstances (the collapse of the current general risk tolerance), the correlation of the returns of the most accepted investment categories increases strongly. This fact may lead to the inclusion of (special) derivatives or other (insurance-like) products in the Pension Fund's portfolio which, logically, are not affected or are less affected by this phenomenon. To the extent the tracking errors of the active investors to be implemented by the Pension Fund are less than mutually fully correlated, this may also contribute to diversification (for instance in a combination within the shares of Value and Growth);
- the **use of derivatives** can contribute to (cost-) efficient asset management. In this context, financial derivatives may only be used for defensive purposes, the control of market and interest risks. Use can also be made of, among other things, forward exchange contracts, various futures contracts, variance swaps and interest rate swaps;
- a **structural long-term reward** is linked to a number of investment risks borne in the financial markets, such as the **market risk** of various securities **and** the **credit risk** in the fixed-interest environment. The Pension Fund, a long-term investor, wishes to make use of this.
- there is no structural long-term reward related to bearing **exchange risks** in the financial markets. Floating exchange rates and the resulting currency results may however contribute to the diversification of a portfolio. Under specific circumstances, statements can also be made on the strength of a foreign currency and the most likely direction it takes vis-à-vis the euro and be implemented in the portfolio (Alpha);
- in the financial markets, no structural risk premium is linked to bearing the **interest risk** of changes in the duration of the interest instalment structure (size and form) and therefore of a different effect on the cash value of the liabilities and on that of the (fixed-interest) investments. Insofar as a risk premium does exist, this is generally included in the instalment premium in the interest instalment structure. In the light of the actual economic circumstances and of the markets, statements can be made on the direction and risks of the future interest levels. In view of the realisation of the Fund's objectives, it may be desirable to adjust the extent to which the Fund runs interest risks to the actual situation and to the scenarios envisaged for the fixed-interest capital markets, as well as the size of the (nominal) coverage ratio of the fund;
- financial markets grant a risk premium for running **liquidity risks** which the Pension Fund may make use of as a long-term investor. Under extreme circumstances, the liquidity of some investments can however entirely dry up. This puts limits on the use of illiquid investments. For the purpose of attaining a high degree of security in making payments, this necessitates a constant assessment of the liquidity characteristics of investment categories and derivative instruments;
- with a view to determining the investment policy, our Pension Fund cannot refrain from formulating an **image of the future development** of the investment environment, possibly in the form of scenarios, or from taking account of the relationship to the Pension Fund's liabilities;
- adding value vis-à-vis the returns of a benchmark by applying an active management (taking positions that deviate from those upheld in the benchmark universe) is possible, but, following the processing of costs, is only given to a restricted number of investors on a consistent, longer term basis. The Pension Fund is therefore considering **passive management** for each investment category **unless** the Pension Fund is strongly convinced of the abilities of a manager to add value and the inefficiency of the market in question, in which case this manager is also given sufficient scope to apply his skills. With respect to active managers, the Pension Fund anticipates that, in principle, specialists with a specific investment style (for example Value versus Growth) and/or who are only active in restricted sub-fields of the universe (for example European Small Cap shares or High Yield bonds), have a lead in showing better than average results vis-à-vis their benchmark;
- the usual **investment strategies** with benchmarks, as these are compiled from a universe chosen in advance with weights **determined by the market capitalisation** of the individual property titles, do not need to show an optimal ratio of risk and return for the Pension Fund (for instance with bond market capitalisation weighted benchmarks). It may therefore be desirable to assume different departure points and to establish benchmarks which are compiled **on the basis of other weightings** (for example 'Fundamental Indices');
- the involvement of **ESG** (Environment, Social and Governance) **criteria** in the selection of individual investment objects may favourably contribute to the restriction of the inherent risks of the Pension Fund's portfolio (see article 3.8 hereafter).

3.4. Risks and risk control

The core risk to which the Pension Fund is subject is that the value development of the investments may deviate from those of the liabilities such that the objectives of the Pension Fund, including the surcharge target, are endangered. This is why the tracking error of the investments vis-à-vis the nominal and possibly the actual liabilities are used as a basis for controlling the Pension Fund's risk: the 'risk budget'. In addition, attention is paid to standards such as surplus at risk (SAR) as well as volatility and value at risk (VAR) of the investments.

The generic control of the investment risks takes place by means of the determination in the Investment plan of (strategic) standard weighting for the investment category to be applied and the permitted appropriate (tactical) ranges in this regard.

The Pension Fund recognises the following as elements of the investment risk:

- **market risk** (Beta) - controlled by selective application of the investment categories and standard weighting with ranges;
- **interest risk** - controlled by wholly or partly reconciling the interest sensitivity (duration) of the (fixed-interest) investments and the liabilities, for instance through the use of 'Interest Swaps';
- **credit risk** - controlled through standardisation of the exposure to debtors with various credit ratings. **Securities lending** is not applied;
- Specific **counterparty risks in derivatives positions** - controlled through selection of and spreading over high quality counterparties and through the option for collateral of the highest quality as well as liquidity, where relevant (Swaps), the use of ISDA and CSA agreements;
- **liquidity risk** - controlled by a maximisation of the illiquid segment of the Pension Fund's investments;
- **risk of active management** (Alpha) - in respect of the positions at category level, controlled through the strategic ranges and in respect of the positions within a category, controlled by a general preference for passive management and restriction of the permitted tracking error, as well as the imposition of ranges for and limits to positions within sub-portfolios;
- **political risk** – is insofar as recognised, taken into consideration in selecting investment categories such as in the case of 'Alternative Investments' in infrastructure, forestry and agricultural land.

The Pension Fund furthermore recognises that it runs **operational risks**. To control the internal operational risks, measures such as authorisation rules, a backup scheme and incident management will be implemented. In respect of the operational risks on outsourcing, the degree of comfort in this regard is taken into consideration in selecting parties (among other things, SAS 70 declarations).

3.5. Strategic allocation

Within the context of an integrated approach to the investments and the obligations, the fulfilment of the investment policy is based on Asset Liability Management (ALM). The ALM study sets the standard for the spread across the investment categories and is, in principle, conducted once every three years, or more often as the Pension Fund's Board considers desirable or is required under the Pensions Act.
As the body with ultimate responsibility, the Board takes its strategic and policy-based decisions in the area of investments, based on the advice it receives from the investment and audit committee. The strategic investment mix is based on the composition of the assets required in the long-term and the relationship to the pension commitments. The current strategic investment mix consists of 52% 'commitment tracking' categories and 48% 'yield generating' categories.
The portfolio that serves to track the commitments consists of high-grade government bonds, European and American credits, Dutch mortgages and interest swaps. This portfolio serves to cover 45% of the yield sensitivity of the pension commitments. The yield portfolio consists of shares, stock market listed immoveable property, infrastructure, high yield bonds, bonds in emerging markets and leveraged loans.

4. Organisation and risk management procedures

4.1 Duties and responsibilities

The Pension Fund is aware of its role as a pension investor. This role compels it to act with the utmost care. The Pension Fund is always prepared to account for its investment actions and for any consequences these may have for the interested parties.

Within the Pension Fund, the Investment Committee will compile the investment portfolio in consultation with its advisors, and asset managers will be selected. Without exception, however, the Board will ultimately be held responsible for all of the Pension Fund's activities, including the investment process. The Investment Committee will report to the Board.

Each quarter, the asset managers will inform the Investment Committee about the developments concerning both the development and the results of the capital invested.

The flow charts (see Annex 1D) provide a schematic representation of the entire asset management process, including for cash management.

4.2 Ancillary activities

The Pension Fund will develop activities which enable it to carry out its core duties as well as possible. Insofar as these activities are not part of the Pension Fund's core duties, the Pension Fund will transfer such duties to a separate legal entity. Between the Pension Fund and this legal entity, there shall not be any:

- financial cross-flows which give the legal entity a competitive advantage that is not in accordance with the market;
- overlap in the individuals serving, on the one hand, in the Pension Fund's Board and, on the other hand, in the legal entity's board;
- access to the Pension Fund's knowledge and data files, except under conditions permissible by law or regulation;
- use of the Pension Fund's name or logo by the legal entity.

At present, the Pension Fund has not transferred any ancillary activities to a separate legal entity.

4.3 Outsourcing

Third parties, such as asset managers, will be selected based on, on the one hand, the relevant requirements stated by DNB and, on the other hand, the criteria applied by the Pension Fund's Board and Investment Committee with respect to available expertise, the organisation's unique culture, economies of scale and flexibility. Third parties will be selected, and their performance evaluated, based on objective criteria. The considerations and arguments used in this respect will be apparent from a methodically structured selection and evaluation file.

Asset management will be outsourced pursuant to a Service Level Agreement (SLA). This agreement will at least satisfy the requirements stated by DNB.

During the outsourcing period, the Pension Fund will ensure that adequate monitoring mechanisms are maintained and complied with in order to manage outsourcing risks.

4.4 Reporting

A meeting of the investment and control committee is held each quarter at which the developments in the financial markets are also discussed. In addition, the investment and control committee meets on a quarterly basis to discuss the current and future investment policy with the board.

4.5 Cost control

In carrying out the investment policy, the Pension Fund will not incur any costs other than those which are reasonable and proportional in relation to the size and composition of the capital invested and the Pension Fund's objectives.

4.6 Expertise

The Pension Fund will ensure that, during each phase of the investment process, it provides the expertise necessary for:

- an optimum investment result;
- professional management of the investments;
- management of the risks associated with the investments.

4.7 Separation of interests

In carrying out the investment policy, the Pension Fund will guard against conflicts of interest. With this in mind, the Pension Fund's managers and employees are to adhere to a code of conduct.

An internal compliance officer will monitor compliance with this code.

4.8 Corporate governance

The Pension Fund will pay particular attention to the enterprises' long-term objectives, with investments being made in terms of sustainable economic growth. The Pension Fund will obtain information about sustainable economic growth from company quality analyses, and will also emphasise its importance to its service providers, such as external asset managers.

The Pension Fund believes that sustainability and corporate governance are inextricably linked to good entrepreneurship. Company management will be held accountable for this. Such accountability is inherent to proper entrepreneurial management and is thus critical in order to prevent the enterprise from becoming estranged from the society which it is part of.

The Pension Fund's activities in the areas of sustainability and corporate government do not represent goals in themselves for the Pension Fund. The implementation of the Pension Fund's policy in these areas will always be measured against its primary responsibility of generating an optimum return for the benefit of the Pension Fund's interested parties.

The Pension Fund will communicate the message that listed companies must be able to sustainably generate a maximum return for their shareholders, and will evaluate the policy of a company's board and supervisory board in light of this objective. This objective implies that a company cannot ignore the interests of other stakeholders involved in the company, such as employees, customers, suppliers and those parties furnishing loan capital.

Given in part the international nature of the stock portfolio, the Pension Fund will assess the quality of the corporate governance based on principles and codes formulated by authoritative international organisations. Where possible and relevant, the Pension Fund will also take national principles and codes into consideration when reaching a decision; for the Netherlands, this will refer specifically to the 'Corporate Governance Code (*Code Tabaksblat*)'. The Pension Fund's policy on corporate governance (including the manner in which the fund accounts for this) has been detailed further in the Pension Fund's Corporate Governance Code.

4.9 Voting rights

Overall, the maxim will be: 'protect shareholder value'.

The Pension Fund will mandate the managers on how to vote at shareholders' meetings, instructing them that voting rights should be exercised in such a manner that the following goals are achieved:

1. furtherance of corporate governance, in order to ensure that management and Board fulfil their obligations towards the shareholders;
2. increased transparency and clarification of responsibilities;
3. equal treatment of shareholders (including remuneration).

Proposals made in General Meetings of Shareholders that serve the aforementioned goals should be supported, and those which undermine corporate governance will be rejected, e.g., proposals pertaining to the appointment of Board members and auditors, the composition of the asset structure, merger and acquisition measures, management remunerations, and other matters, such as social and corporate responsibility.

4.10 Ban on cluster munition

From 1 January 2013 there is legal ban on the execution of transactions, the provision of loans or the acquisition of non-freely tradable holdings in companies involved in the production, distribution or sale of cluster munition or critical parts thereof. The ban has been enforced since 1 April 2013. From that date a ‘reasonable’ term is taken into account within which those financial instruments, loans or non-freely tradable holdings have to be disposed of or terminated.

The Pension Fund shall ensure that there are no investments in companies on the published list. To this end, the Pension Fund shall share the list with its asset managers, accompanied by a prohibition on investments in the relevant companies. The outsourcing agreement with the asset manager regulates the way in which the asset manager must implement this prohibition. The risk manager shall oversee this and report on it to the Pension Fund.

Incidentally, the legal ban shall not apply to transactions in investment institutions and indices managed by third parties whereby the manufacturers of cluster munition and/or associated companies represent less than 5% of the value of those investment institutions or that index.