

BeFrank Sustainable Lifecycle



Q3 2022

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Investing in a lifecycle

In lifecycle investing, the investment risk is automatically reduced as the retirement date approaches. We do this by gradually reducing the proportion of the pension money that we invest in risky investments (such as equities) and allocating more to low-risk investments such as government bonds.

The lifecycle consists of three parts, also called building blocks:

- **Focus on growth**

This part aims to generate attractive returns. To accomplish this, we invest in the Triodos Global Equities Impact Fund. This fund invests in global equities.

- **Focus on growth and retirement**

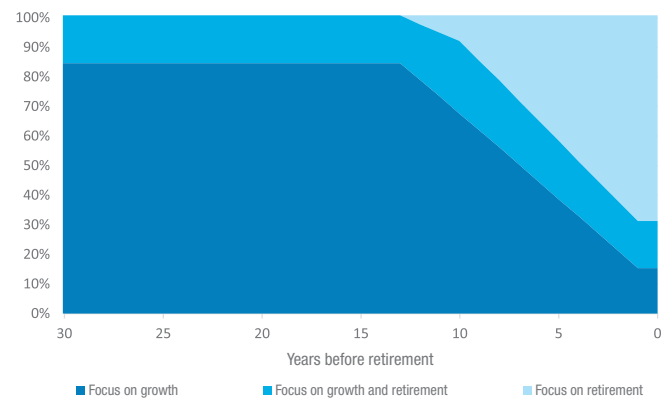
This part combines generating attractive returns and reducing the investment risk ready for retirement. In order to achieve this, we invest in the Triodos Euro Bond Impact Fund. With this fund, we invest in less risky asset classes such as corporate bonds with high credit ratings and government bonds.

- **Focus on retirement**

This part is intended to reduce interest rate risk. On retirement date, a benefit is purchased with the pension capital. The size of the pension benefit depends on a number of factors including the market interest rate at the time. If interest rates are low, more money is needed to buy the same pension benefit than when interest rates are high. The NN Liability Matching Funds reduce this interest rate risk. If interest rates fall, the returns generated by these funds increase. The reverse also applies. If interest rates rise, the value of investments decreases, but

because interest rates are higher, less money is required to purchase the same pension benefit. This is how we try to 'match' the purchase of pensions with interest rate movements. We use three bond funds with different interest rate sensitivity profiles (NN Liability Matching Funds M, L, XL) that invest in European government bonds to do this. These bond funds reduce the risk associated with lower market interest rates.

Fixed pension benefit neutral profile



Source: BeFrank



Financial markets

Lifecycle returns depend on the performance of financial markets.
How did markets perform over the last quarter?

Focus on growth: good start for equities, but rally turned sour

- Global equities started the third quarter in a positive mood, recovering from their mid-June lows. This bear-market rally was partly driven by the better-than-feared earnings season and lasted for two months. But in September, equity prices fell sharply, as worries about persistently high inflation and hawkish central bank policies and fears of recession and a slowdown in growth in the near term prevailed again. On balance, global equities (according to the MSCI World index for all countries) posted a modest quarterly gain of 0.23% in euros. US equities (+1.7% in euros) outperformed because of the rise in the US dollar, which hit parity with the euro in the third quarter. In sector terms, the consumer discretionary and energy sectors performed well, while the communication service sector was among the biggest losers.

Focus on growth and retirement: turmoil in bond markets

The focus on growth and retirement is filled with “safe” investments in government bonds and corporate bonds with high credit ratings. Developments in interest rates are important here, and the credit spread is also important for corporate bonds. The credit spread is the surcharge on the interest rate over government bonds; this is the compensation for the risk.

- The third quarter was one in which developed market central banks, except Japan, displayed their determination to fight inflation. They raised their policy rates at a rapid pace, causing turmoil in bond markets. In fact, global bonds recorded the worst quarter in decades. Rates spiked to record highs and credit spreads continued to widen.

Focus on retirement: historic interest rate hikes central banks

For the focus on retirement, interest rate movements are important. For this we look at the monetary policy of the US Federal Reserve (Fed) and the European Central Bank (ECB).

- At the beginning of the third quarter, investors were still hoping for an early dovish pivot in central banks’ monetary policy. However, the Fed dashed those hopes with rate hikes of 75 basis points in July and September. Chairman Jerome Powell made clear that the fight against inflation is priority number one,

even at the cost of economic hardship. The US dollar appreciated against most other major currencies. Subsequently, other central banks in developed countries (except the Bank of Japan) raised their policy rates as well. The ECB ended an era of negative deposit rates, with hikes of 50 basis points in July and 75 basis points in September. The hawkish central banks’ policies pushed bond yields to record highs. The European benchmark, the yield on 10-year German government bonds, rose by 77 basis points in the third quarter. The rise in interest rates is also reflected in the negative quarterly returns of the Liability Matching funds.

Outlook

- Inflation remains extremely high and is spreading from energy to other products and services. The inflation spike exerts a drag on both the supply and demand sides of the economy. On the supply side, the rise in input costs makes some production activities unprofitable. On the demand side, the inflation spike reduces real income which will (all else being equal) decrease spending. The question is to what extent fiscal measures can compensate for the loss of income and keep the economy running. A recession in Europe can be assumed.
- Investors need to reassess their playbooks, as it has become clear that the hoped-for pivot will not occur in the next couple of quarters. This means that macro and corporate fundamentals will play a bigger role for financial markets. We fear that a lot of bad news, especially on earnings, is yet to come and is not sufficiently discounted. Investor sentiment remains extremely cautious, which may act as a buffer against any unfavorable developments.

Net return by age group

Fixed pension benefit

Very defensive

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,3	-15,7
45 years	-4,2	-17,3	-15,7
55 years	-5,7	-23,8	-22,8
67 years	-6,6	-23,3	-23,9

Defensive

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,4	-15,6
45 years	-4,2	-17,4	-15,6
55 years	-4,7	-20,3	-18,9
67 years	-6,9	-24,7	-25,0

Neutral

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,4	-15,6
45 years	-4,2	-17,4	-15,6
55 years	-4,2	-17,4	-15,6
67 years	-6,9	-25,5	-25,6

Offensive

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,5	-15,5
45 years	-4,2	-17,5	-15,5
55 years	-4,2	-17,5	-15,5
67 years	-7,0	-25,7	-25,8

Very offensive

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,5	-15,5
45 years	-4,2	-17,5	-15,5
55 years	-4,2	-17,5	-15,5
67 years	-7,0	-26,0	-26,0

Net return by age group

Variable pension benefit reduced risk to 15%

Defensive - reduced risk to 15%

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,4	-15,6
45 years	-4,2	-17,4	-15,6
55 years	-4,5	-19,4	-18,0
67 years	-6,9	-25,9	-25,9

Neutral - reduced risk to 15%

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,4	-15,6
45 years	-4,2	-17,4	-15,6
55 years	-4,2	-17,4	-15,6
67 years	-6,9	-26,1	-26,1

Offensive - reduced risk to 15%

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,5	-15,5
45 years	-4,2	-17,5	-15,5
55 years	-4,2	-17,5	-15,5
67 years	-7,0	-26,2	-26,2

Very offensive - reduced risk to 15%

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,5	-15,5
45 years	-4,2	-17,5	-15,5
55 years	-4,2	-17,5	-15,5
67 years	-7,0	-26,4	-26,3

Variable pension benefit reduced risk to 30%

Neutral - reduced risk to 30%

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,4	-15,6
45 years	-4,2	-17,4	-15,6
55 years	-4,2	-17,4	-15,6
67 years	-6,5	-26,5	-26,1

Net return by age group

Variable pension benefit reduced risk to 30%

Offensive - reduced risk to 30%

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,5	-15,5
45 years	-4,2	-17,5	-15,5
55 years	-4,2	-17,5	-15,5
67 years	-6,5	-26,5	-26,1

Very offensive - reduced risk to 30%

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,5	-15,5
45 years	-4,2	-17,5	-15,5
55 years	-4,2	-17,5	-15,5
67 years	-6,5	-26,5	-26,0

Variable pension benefit reduced risk to 45%

Offensive - reduced risk to 45%

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,5	-15,5
45 years	-4,2	-17,5	-15,5
55 years	-4,2	-17,5	-15,5
67 years	-6,5	-27,2	-26,3

Very offensive - reduced risk to 45%

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,5	-15,5
45 years	-4,2	-17,5	-15,5
55 years	-4,2	-17,5	-15,5
67 years	-6,4	-27,1	-26,2

Variable pension benefit reduced risk to 60%

Very offensive - reduced risk to 60%

Return (%) (net)	3 months	Year to date	1 year
35 years	-4,2	-17,5	-15,5
45 years	-4,2	-17,5	-15,5
55 years	-4,2	-17,5	-15,5
67 years	-6,2	-27,4	-26,1

Sustainable investing with impact

Sustainability is a concept with multiple definitions. For BeFrank, it means that together with our asset managers we invest pension contributions within available contribution schemes in a responsible manner, with an emphasis on people, the environment and society.

In the Sustainable Lifecycle, we shape this with Triodos' 'impact investment strategies'. Impact investing is a method of sustainable investing that goes beyond other well-known ways such as 'best-in-class' and 'exclusions'. The following four basic principles apply to the composition of the investment portfolio:

- Targets companies that offer sustainable products and/or have sustainable business processes
- Screens destructive and exploitative industries (e.g., fossil fuels, arms)
- Assesses company ESG practices and sustainability policies
- Encourages company transparency and public disclosure

Transition themes

Triodos invests in equities and bonds of companies, institutions and projects that drive the transition to a sustainable society. Each investment has been carefully selected for its contribution to the seven sustainable transition themes formulated by Triodos. These themes provide a comprehensive overview of the transitions the world needs to make to solve our most urgent sustainability challenges. Based on the challenges presented by global mega-trends that Triodos believes will shape the future, they are at the heart of the investment and impact management approach.

The seven transition themes are:

1. Sustainable food and agriculture
2. Renewable resources
3. Circular economy
4. Sustainable mobility and infrastructure
5. Innovation for sustainability
6. Prosperous and healthy people
7. Social inclusion and empowerment


Every investment in the Triodos portfolios must materially contribute to at least one transition theme through its products, services, and/or business operating model. Additionally, to be eligible for investment, companies must meet with Triodos' process, product and precautionary minimum standards. Once companies are deemed eligible for investment, integrated financial and sustainability analysis is conducted to determine whether companies qualify as portfolio candidates. Triodos evaluates the company's financial value drivers and assess the potential impact of internal and external sustainability factors on future financial value, making the approach both solutions-focused and forward-looking.



Sustainability Impact

The sustainability of an investment fund is determined by several factors. We request data on CO2 emissions, water consumption and waste generation from our (underlying) investment funds and their benchmarks. In the benchmark, sustainability criteria are not considered. Comparing these data provides insight into the savings of CO2 emissions, water consumption and waste production of our sustainable funds compared to the benchmark. Note: these are factors that say something about sustainability, but the impact on sustainability is also determined by other factors such as the exclusion of certain sectors or companies. The overview below shows the savings per million EUR invested in the combination of the Triodos Global Equities Impact Fund and the Triodos Euro Bond Impact Fund, based on figures as of 30/06/2022. Participants can find the savings associated with the value of their investments on their BeFrank personal pension page.


26,2 tons




CO2 emissions

 You can compare that with **240.275 kilometres** driven


6.735 m³




water consumption

 You can compare that with showering **107.411 times**

-2,05 tons



waste

 You can compare that with **-205 garbage bags**



Funds BeFrank Sustainable Lifecycle

Triodos Global Equities Impact Fund

The Triodos Global Equities Impact Fund aims to generate positive impact and competitive returns from a concentrated portfolio of equities issued by large-cap companies offering sustainable solutions. Integrated financial and sustainability analysis makes impact the cornerstone of the stock selection process. Triodos' strict screening based on companies' contribution to their transition themes and compliance with their minimum standards, currently results in an investable universe comprised of approximately 200 mission-aligned companies, compared to circa 1,600 companies in the fund's reference index (MSCI World). As impact investing does not intend to invest in line with the benchmark or to outperform the benchmark, the composition of the investments will differ significantly from the reference benchmark and therefore there may be major differences between the fund's returns and the reference benchmark.

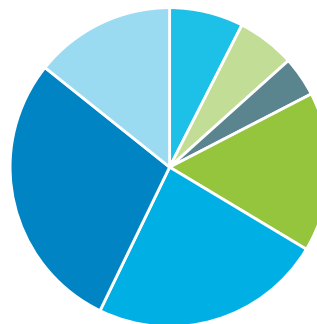
Return (%) (net)	3 months	Year to date	1 year
Triodos Global Equities Impact Fund (I-II-cap)	-4,15	-17,60	-15,28
MSCI World Index EUR	0,45	-13,27	-5,01

As impact investing does not intend to invest in line with the benchmark or to outperform the benchmark, the composition of the investments will differ significantly from the reference benchmark and therefore there may be major differences between the fund's returns and the reference benchmark.

Statistics

ISIN code	LU1782629478
Inception date	07/09/2018
Ongoing charges	0,61%

Breakdown by theme



- Sustainable food and agriculture
- Renewable resources
- Circular economy
- Sustainable mobility and infrastructure
- Innovation for sustainability
- Prosperous and healthy people
- Social inclusion and empowerment

Source: Triodos Investment Management



Triodos Euro Bond Impact Fund

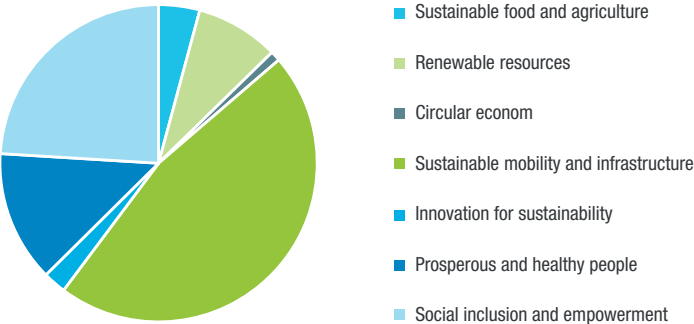
The Triodos Euro Bond Impact Fund aims to generate positive impact and stable income from a concentrated portfolio of investment-grade, euro-denominated bonds issued by listed companies, semi-public institutions, and EU member state governments. Integrated financial and sustainability analysis makes impact the cornerstone of the bond selection process. Triodos' strict screening based on issuers' contribution to their transition themes and compliance with their minimum standards, currently results in an investable universe comprised of approximately 1,500 mission-aligned bonds, compared to over 5,000 in the fund's reference index.

Return (%) (net)	3 months	Year to date	1 year
Triodos Euro Bond Impact Fund (I-II-cap)	-4,29	-16,39	-17,03
Compounded Benchmark Triodos Euro Bond Impact Fund	-3,84	-15,53	-16,03

As impact investing does not intend to invest in line with the benchmark or to outperform the benchmark, the composition of the investments will differ significantly from the reference benchmark and therefore there may be major differences between the fund's returns and the reference benchmark.

Statistics	
ISIN code	LU1782629122
Inception date	07/09/2018
Ongoing charges	0,36%

Breakdown by theme



Source: Triodos Investment Management



NN Liability Matching funds

The three Liability Matching funds have different interest rate sensitivity profiles (NN Liability Matching Fund M, L and XL). They invest in a combination of euro-denominated interest rate swaps, high-quality money market funds, high-quality government bonds and cash. The interest rate sensitivity of the funds can be increased using interest rate swaps and bond futures. The NN Liability Matching Fund M strives for an interest rate sensitivity of approximately 4 years and L and XL of approximately 20 and 40 years, respectively. The three NN Liability Matching funds have different interest rate profiles that are composed in such a way that, used in combination, they can offer the best possible match in the period leading up to retirement.

What did the interest rate do?

The high level of uncertainty in the financial markets and the expected further interest rate hikes by the central banks have resulted in higher long-term interest rates. For example, the 10-year German Bund yield rose in the third quarter to well above 2%. This is the highest level since 2011. The longer the duration of a fund, the greater the effect on a fund. As a result, the XL fund showed a strong negative return over the past quarter. Because these funds are set up to cover the risk of an interest rate rise or fall on the pension to be purchased in retirement, a negative return for a 67-year-old is not necessarily disadvantageous because the pension to be purchased has also become cheaper.



Returns

NN Liability Matching Fonds M-T

Return (%) (net)	3 months	Year to date	1 year
NN Liability Matching Fund M-T	-4,67	-11,82	-12,51
Benchmark	-4,53	-11,69	-12,41

Statistics

ISIN code	NL0013040348
Inception date	November 2018
Ongoing charges	0,15%

NN Liability Matching Fonds L-T

Return (%) (net)	3 months	Year to date	1 year
NN Liability Matching Fund L-T	-10,61	-37,67	-38,09
Benchmark	-10,39	-37,65	-38,13

Statistics

ISIN code	NL0013040355
Inception date	November 2018
Ongoing charges	0,15%

NN Liability Matching Fonds XL-T

Return (%) (net)	3 months	Year to date	1 year
NN Liability Matching Fund XL-T	-11,74	-49,42	-48,95
Benchmark	-11,38	-49,25	-48,80

Statistics

ISIN code	NL0013040363
Inception date	November 2018
Ongoing charges	0,15%

Source: NNIP

Disclaimer

The purpose of this report is to provide insight into the investments within the lifecycle of BeFrank and is not an investment advice. The performance overview has been compiled with care by BeFrank. No rights can be derived from this information. The returns in the report are after deduction of the fund costs but exclude the management costs charged by BeFrank.

