

THE DUFAS PRINCIPLES OF FIDUCIARY MANAGEMENT
(unofficial translation of original text in Dutch)

Introduction

In recent years, a growing number of pension funds have transferred the management of their assets to a fiduciary manager. By doing so, pension funds can acquire wide-ranging benefits including access to more professional expertise with regard to pension fund asset management, management of its balance sheet and increasingly stricter regulatory supervision. As the concept of fiduciary management or integral asset management is still in a developmental phase, the DUFAS principles of fiduciary management are intended to guide this development in the right direction.

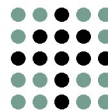
As these DUFAS principles of fiduciary management will clarify, fiduciary management is fundamentally different from operational asset management. In the Netherlands, the law does not allow a pension fund to transfer its own responsibility to a fiduciary manager. The fiduciary manager must nevertheless put itself in the position of the pension fund's board and must act 'as if it were a good pension fund board'. The significance of the supporting role of the fiduciary manager *vis-à-vis* the pension fund board means that the fiduciary manager plays an undeniable role in the management of the pension fund's balance sheet. This means, for instance, that at times of unrest on the financial markets it must proactively advise the pension fund on revising the strategic investment policy, risk management and composition of its investment portfolio in response to changing market conditions. It is therefore important for pension funds and fiduciary managers to have a clear idea of their own duties and responsibilities and to set out these specific roles in a fiduciary management agreement.

The extent to which a pension fund outsources fiduciary management may vary. A far-reaching form of fiduciary management will include the fiduciary manager's advice to the pension fund's board on the coordination of assets and liabilities, investment strategy, composition of the investment portfolio, selection and monitoring of operational asset managers, including reporting to the pension fund's board on all of these duties and operations. Arrangements can also be made for the investment of assets or part of the assets in investment institutions, managed either by the fiduciary manager or by another party. The rationale behind such choices must be explained to the pension fund.

There are also less far-reaching forms of outsourcing. In these DUFAS principles a number of different aspects of fiduciary management are identified and a distinction is made between core activities and additional activities. Fiduciary management exists if the fiduciary manager's responsibilities include the core activities, but the fiduciary manager may outsource these core activities to other professional parties under its responsibility.

In carrying out the various activities and making the corresponding choices, parties need to realise that there may be potential conflicts of interest between the fiduciary manager and the pension fund. They should therefore draw up a clear conflicts of interest policy.

There should be transparency about all costs and fees in connection with the fiduciary management. The fiduciary manager must also be transparent towards the pension fund about the costs associated with the investment of assets of the pension fund by operational asset managers or investment



institutions. Incidentally, this does not mean that all costs incurred by operational asset managers and investment institutions always have to be specified to the pension fund, but it does mean that the selection process must be clear.

Outsourcing to a fiduciary manager will not release the pension fund's board from its own responsibility towards the fund's stakeholders and the supervisory authority. For example, if the fiduciary manager also conducts an ALM study, or a selection is made to invest or partly invest in the fiduciary manager's own investment institutions, the pension fund should consider whether a second opinion is needed. The board will at all times retain responsibility for the policies that have been pursued.

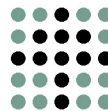
These principles do not constitute a legally enforceable document. They do, however, set out a number of guidelines for pension funds and fiduciary managers to structure fiduciary management and allocate duties. Our objective is to set out generally accepted principles, where possible, and to refrain from dictating to market participants how intended results should be achieved.

These principles aim to ensure that the fiduciary manager will manage its clients' interests 'in an honest, fair and professional manner' (Dutch legislation has a similar provision for investment services in general). In turn, the pension fund must have sufficient expertise to enable it to properly assess the services provided and may be assisted by third parties engaged for this purpose. These principles therefore mention the rights and obligations of both parties. The parties need to ascertain not only whether the other party complies with laws and regulations, but whether it has sufficient expertise (possibly external) at its disposal.

These principles are supplemented by a 'Fiduciary Management Agreement' template with explanatory notes. This will effectively provide market parties with a checklist that they can use to structure their own fiduciary management relationship. Every agreement will, after all, be tailored to the parties' own needs.

Fiduciary management is gaining popularity. For marketing reasons, providers may be tempted to label their services as fiduciary management even if the services offered do not really warrant this, *e.g.*, if there is no clear responsibility for managing the balance sheet of the pension fund. Incorrect assumptions and expectations between parties may cause damage and result in litigation. Fiduciary management comprises a complex sum of mutual duties and responsibilities, taking into account specific aspects of the pension system in the Netherlands. By introducing the principles of fiduciary management, DUFAS intends to further define this specific form of service and clearly set out the parties' mutual rights and obligations.

The DUFAS principles of fiduciary management will be amended in consultation with market parties if new insights or legislation give rise to changes.



A General provisions

Article 1. Definitions

In these guidelines the following expressions have the following meanings:

➤ **Fiduciary Manager**

The party with which the Pension Fund has entered into the Fiduciary Management Agreement.

➤ **Fiduciary Management**

Activities aimed at the realisation of policy objectives with regard to all of the assets of the Pension Fund.

The following components can be identified in this context. A distinction can thereby be made between core activities and additional activities. In addition, the parties can agree that the fiduciary manager may outsource part of the activities.

Core activities

- Design strategic investment policy proposals, in conjunction with an ALM study
- Provide advice on risk management, balance sheet management and possible implementation thereof
- Dynamically manage composition of the portfolio
- Select, instruct, oversee, and dismiss operational asset managers
- Communicate with and report to the pension fund about the execution of various activities
- Analysis and assignment of performance (both internally and externally)

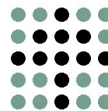
Optional additional activities

- Perform an ALM study
- Select, instruct, oversee and dismiss custodians and, possibly, prime brokers, clearing brokers, execution brokers and counterparties for the purpose of OTC derivatives transactions and entering into ISDAs (including Credit Support Annex) with these counterparties. Provide adequate monitoring of the counterparty risk and carry out prudent collateral management
- Administration of and interaction with custodian(s)
- Provide support to the board of the pension fund in connection with board meetings, annual reports, etc.

➤ **Fiduciary Management Agreement**

An agreement between the Pension Fund and the Fiduciary Manager for outsourcing asset management.

➤ **Costs**



All amounts directly or indirectly chargeable to the Pension Fund pursuant to the Fiduciary Management Agreement, except for the Fees.

➤ Pension Fund

A sector pension fund (*bedrijfstakpensioenfond*s), an occupational pension fund (*beroepspensioenfond*s), or a company pension fund (*ondernemingspensioenfond*s).

- Sector pension fund

A pension fund for one or more sectors of industry or part of a sector of industry¹.

- Occupational pension fund

A pension fund for a particular profession, incorporating an occupational pension scheme².

- Company pension fund

A pension fund connected with an undertaking or a group as referred to in section 24b, Book 2, Dutch Civil Code³.

➤ Service Agreement

An agreement between a Fiduciary Manager and a Pension Fund specifying, among other things, the service levels at which the Fiduciary Manager will supply a product or service to the Pension Fund.

➤ Supervisory Authority

The Netherlands Central Bank and/or the Netherlands Authority for the Financial Markets, each to the extent that they are charged with supervision under the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*), the Dutch Pensions Act (*Pensioenwet*) or the Dutch Occupational Pension Scheme Act (*Wet verplichte beroepspensioenregeling*), or any other supervisory authority to the extent that it is charged with supervision of Pension Funds.

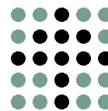
➤ Fees

All amounts charged directly or indirectly by the Fiduciary Manager to the Pension Fund pursuant to the Fiduciary Management Agreement, including fees for operational asset management.

¹ Source: section 1 Dutch Pensions Act (*Pensioenwet*)

² Source: Dutch Occupational Pension Scheme Act (*Wet verplichte beroepspensioenregeling*)

³ Source: section 1 Dutch Pensions Act



Article 2. Purpose of these principles

The purpose of these principles is threefold:

- To provide Pension Funds with an overview of Fiduciary Management and the issues relevant thereto. These principles will enable Pension Funds to assess the standards to be met by a competent Fiduciary Manager. In turn, these principles will provide Fiduciary Managers with an understanding on how to implement their duties and responsibilities *vis-à-vis* the Pension Funds.
- To clarify which issues are relevant to all parties involved during contractual discussions between the Pension Fund and the Fiduciary Manager.
- To reflect good practice in the market, where applicable. These principles may serve as a guideline in drawing up a Fiduciary Management Agreement and evaluating existing agreements.

These principles cannot replace or serve as an addendum to a Fiduciary Management Agreement.

Article 3. Scope

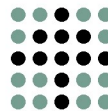
These principles relate specifically to Fiduciary Management for Pension Funds.

B. Principles

Article 4. Responsibility

A Fiduciary Management Agreement will provide for the allocation of duties and responsibilities between the Pension Fund and the Fiduciary Manager. Given the importance of its task of supporting the Pension Fund's board, the Fiduciary Manager has significant responsibilities towards the Pension Fund. The Fiduciary Manager will control the balance sheet management of the Pension Fund and should therefore take an active role if circumstances require this, *e.g.*, by advising the Pension Fund on a change in strategic investment policy.

The Pension Fund itself, however, will retain ultimate responsibility for the outsourced activities at all times. In accordance with the provisions of section 34 of the Dutch Pensions Act the Pension Fund shall ensure that the Fiduciary Manager complies with the provisions of the Dutch Pensions Act that apply to the Pension Fund. The Pension Fund shall not outsource any activities in violation of section 12 of the Decree implementing the Dutch Pension Act and the Dutch Occupational Pension Scheme Act. In particular, this means that outsourcing may not undermine the Pension Fund's responsibility to the organisation and the handling of business processes and the supervision thereof, and may not impede adequate supervision by the Supervisory Authority of compliance with the provisions of the Dutch Pensions Act or the Dutch Occupational Pension Scheme Act.



In general, responsibility is allocated as follows:

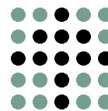
- The Pension Fund may not delegate ultimate responsibility for the outsourced activities.
- The Pension Fund will make strategic decisions with regard to the outsourced activities.
- The Pension Fund is responsible for overall risk control, performance evaluation and validating the governance of the Fiduciary Manager.
- The Fiduciary Manager will pro-actively advise the Pension Fund about taking strategic decisions, e.g. with regard to mandatory matters such as continuity analysis, recovery plan, statement of investment principles and the Actuarial and Technical Business Report (*Actuariële en Bedrijfstechnische Nota, ABTN*), and it will provide the Pension Fund with timely high quality, carefully selected, relevant information.
- The Fiduciary Manager will support the Pension Fund in choices of investment categories and subcategories, and will ensure an efficient implementation thereof.
- The Fiduciary Manager will advise the Pension Fund on the preparation of an efficient and robust investment plan in line with strategic principles, including an ALM study.
- If so requested, the Fiduciary Manager may advise the Pension Fund on a policy for socially responsible investment and assume responsibility for the implementation of such policy.
- The Fiduciary Manager will be responsible for the composition of the portfolio and the selection of operational asset managers and/or investment institutions in which the Pension Fund will participate.
- The Fiduciary Manager will oversee whether and to what extent the investment portfolio puts strategic objectives into effect.
- The Pension Fund will ascertain the quality and care with which the outsourced activities are carried out in accordance with its ultimate responsibility.
- The Pension Fund will have a duty of information towards Supervisory Authorities and guarantees that its reports to these authorities concerning the outsourced activities are accurate, complete and timely.

To meet their mutual obligations, both parties must comply with applicable laws and regulations (such as the provisions on outsourcing for Pension Funds and the MiFID provisions concerning conflicts of interest, inducements and best execution for Fiduciary Managers). The parties must provide each other with such information as is available, which is required by the other party to be able to fulfil its obligations. Both parties must employ enough experienced staff to be able to assume their role and perform their responsibilities. Properly engaging other professional parties to assume such role and perform such responsibilities could also be part thereof.

Article 5. Expertise

The Pension Fund and the Fiduciary Manager will have sufficient expertise at their disposal with regard to the outsourced activities.

- The Pension Fund will have sufficient expertise at its disposal to understand what the outsourced activities entail, to take well-founded strategic decisions with regard to the outsourced activities, to monitor the Fiduciary Manager's work and to bear the ultimate



responsibility for the outsourced activities. The Pension Fund will, where necessary, seek expert advice.

- The Fiduciary Manager will have, among other things, sufficient expertise at its disposal to carry out the operations outsourced by the Pension Fund in accordance with the agreed terms. For this purpose, the Fiduciary Manager has a transparent and objectively verifiable selection process for operational fund managers and/or investment institutions, an efficient implementation of the investment plan and clear lines of communication.

Article 6. Interest

The Fiduciary Manager will look after the Pension Fund's interests in an honest, fair and professional manner.

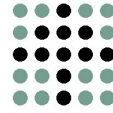
- The Fiduciary Manager will know and understand the guidelines, objectives and obligations as formulated by the Pension Fund, and will act on the basis of these principles.
- The Fiduciary Manager will have a transparent and objectively verifiable decision-making process with regard to the selection of parties to which activities are outsourced, and it will provide transparency to the Pension Fund with respect to the outsourced activities.
- The Fiduciary Manager and the Pension Fund may agree that the Fiduciary Manager perform some or all of the outsourced activities itself, subject to the same requirements of transparency and objectivity.

Article 7. Control

The goal of both the Pension Fund and the Fiduciary Manager will be to achieve optimal control of the outsourced processes.

- The Pension Fund will have a sound outsourcing policy, in which objective selection and adequate monitoring are central tenets.
- The Fiduciary Manager shall ensure the quality of the outsourced activities by using expert staff, reliable systems, and adequate organizational and administrative procedures and measures.
- The Fiduciary Manager will comply with all applicable laws and regulations in connection with the outsourced activities and will set up an adequate compliance function, among other things, for this purpose.
- The Fiduciary Manager will provide for integral monitoring of the operational risks in connection with the outsourced activities.
- The Fiduciary Manager will take all possible measures to promote the continuity of the outsourced activities and will clearly inform the Pension Fund about the manner in which it does this.
- The Pension Fund and the Fiduciary Manager will regularly verify whether the manner in which the outsourced activities are carried out is in line with the agreed terms.

Article 8. Transparency of Costs and Fees



The Fiduciary Manager will provide the Pension Fund with all relevant Costs and Fees paid to third parties with regard to the outsourcing in a clear manner.

- The Fiduciary Manager will provide the Pension Fund with complete transparency about all income and other benefits (inducements) received by its organisation and affiliated parties as a result of the Fiduciary Management Agreement with the Pension Fund.

Article 9. Coordination

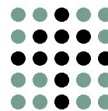
The Fiduciary Manager is responsible for the coordination of the various components of the Fiduciary Management.

- The Pension Fund and the Fiduciary Manager will make contractual arrangements about specific expectations, duties and responsibilities in respect of the Fiduciary Manager and about the allocation of Costs.
- The Fiduciary Manager will guarantee the coordination (the alignment) of the various components of the Fiduciary Management.
- The Pension Fund and the Fiduciary Manager will make contractual arrangements about agreements with third parties (both operational asset managers and ALM consultants) about the outsourced activities.
- The Fiduciary Manager will provide the Pension Fund with a designated contact, either a person or a team, that knows and understands the guidelines and objectives of the Pension Fund, that promotes the interests of the Pension Fund in a professional manner and has sufficient expertise with regard to the components of Fiduciary Management.

Article 10. Strategic policy

The Pension Fund will ensure that the strategic policy is based on an ALM study that has been professionally carried out in conformity with good practice and which is in keeping with the guidelines adopted by the board.

- The Pension Fund will ensure that the ALM study is carried out in a professional manner. The ALM study may be carried out by the Fiduciary Manager itself, but only with the Pension Fund's express approval.
- The Pension Fund will ensure that the ALM study is based on its guidelines, objectives and obligations.
- If the Fiduciary Manager does not carry out the ALM study itself, it will familiarise itself with the ALM study in depth.
- The Pension Fund will draw up the strategic policy.
- The Fiduciary Manager will make a proposal to the Pension Fund with regard to the benchmarks for the various investment categories and will provide the Pension Fund with advice in respect of this.



- Both parties will ascertain that the Pension Fund has sufficient information to take well-founded decisions with regard to the strategic policy. This information includes data on expected returns.

Article 11. Risk management

The Fiduciary Manager will monitor the integral management of financial risks as part of the Fiduciary Management.

- The Fiduciary Manager will measure, analyse and control the financial risks from an integral perspective, including the other party's risks, according to previously agreed methods.
- If a risk limit is exceeded, the Fiduciary Manager will make every effort to take adequate action as soon as possible.
- The Pension Fund and the Fiduciary Manager will make contractual arrangements about the manner and timeframe within which the Fiduciary Manager will inform the Pension Fund about risk limits being exceeded.
- The Pension Fund and the Fiduciary Manager will agree on whether the Fiduciary Manager may or must take action in the event risk limits are exceeded or whether the board of the Pension Fund is informed so that it can take action itself.

Article 12. Composition of the portfolio

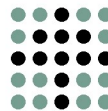
The Fiduciary Manager will strive for an optimal composition of the portfolio for the Pension Fund and will ensure that the strategic policy is implemented in an efficient and effective manner.

- The Fiduciary Manager will make an objective comparative assessment between active and passive and internal and external asset management for the various investment categories, and will give clear advice to the Pension Fund about this.
- The Fiduciary Manager will select the most suitable portfolio structure and product types for the implementation of the Pension Fund's investment strategy, taking into account size, Costs and diversification principles.
- The Fiduciary Manager will ensure that the monitoring and re-allocation of the Pension Fund's strategic investment portfolio will take place in accordance with agreed policy guidelines and risk tolerance.

Article 13. Selection and monitoring of operational asset managers and/or investment via investment institutions

The Fiduciary Manager will provide complete transparency with regard to the selection, instruction, oversight and dismissal of operational asset managers, including any investment via investment institutions (managed by the Fiduciary Manager itself or otherwise).

- The Fiduciary Manager will have a transparent process for the selection, instruction, oversight and dismissal of operational asset managers.



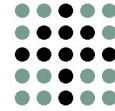
- The Fiduciary Manager will apply the same transparent selection and termination criteria to both internal and external operational asset managers, unless expressly agreed otherwise with the Pension Fund.
- The Fiduciary Manager will set up the structure, including the remuneration structure, for operational asset management in such a way that it is consistent with the Fiduciary Manager's mandate.
- The Fiduciary Manager will be responsible for adequate monitoring of the operational asset managers, so that it can intervene in a timely manner if an adverse situation occurs.
- The Pension Fund and the Fiduciary Manager may make arrangements for possible investment of the assets or part of the assets in investment institutions (managed by the Fiduciary Manager itself or otherwise), in accordance with the same principles as set out in this article.

Article 14. Reports and communication

The Pension Fund and the Fiduciary Manager will both ensure that that all necessary information is provided.

- Both parties will make contractual arrangements on the frequency, content and structure of reports and other communication, and on the role of third parties in this process.
- The Fiduciary Manager will ensure that the reports provided by it meet accuracy, completeness, timeframe and relevancy criteria.
- The Fiduciary Manager will ensure that the reports provided by it are comprehensible to the Pension Fund. If necessary, it will provide the Pension Fund with further explanation.
- The Fiduciary Manager will report or communicate, as the case may be, about the following subjects:
 - Performance
 - Changes of the asset/liability ratio
 - Exposure to various markets and currencies
 - Risk management
 - Relevant market development
 - Relevant developments within the organisation of the Fiduciary Manager
 - Relevant developments at outsourced operational asset managers
 - Incidents and/or focus points (issues)
 - Costs and Fees
- Reports by the Fiduciary Manager are without prejudice to the outsourcing by the Fiduciary Manager, in consultation with the Pension Fund, of one or several of its operations to third parties, while retaining responsibility for the outsourced operations of the Fiduciary Manager. It is also possible that the Pension Fund itself will outsource the aforementioned matters to third parties, e.g. performance assessment to the custodian.
- The Fiduciary Manager will ensure that proper operational processes exist, to account for its reporting⁴ to the Pension Fund.
- Both parties will treat the information they receive from each other as confidential.

⁴ In its reporting to the Pension Fund, the Fiduciary Manager must take into account that its reports form the basis for or a part of the Pension Fund's reports to the supervisory authority.



Article 15. Agreement

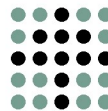
Both the Pension Fund and the Fiduciary Manager will ensure that a written, comprehensible and unambiguous agreement is concluded which includes all important aspects of the outsourcing. A template of a Fiduciary Management Agreement is attached.

- Both parties will lay down the Fiduciary Manager's mandate in an agreement in which they also explicitly provide for the manner and timeframe within which the Fiduciary Manager will report any deviations from the mandate.
- The contract will contain a governing law clause.
- The contract will set out the terms for termination of the agreement and for liability of the Fiduciary Manager.
- The agreement contains provisions which, where possible, are based on good practice.
- Further details and timing of the duties of the parties involved may be laid down in, for example, a Service Agreement or an annex to the Fiduciary Management Agreement.

C. Final provisions

Article 16. Official title

These principles shall officially be referred to as 'The DUFAS Principles of Fiduciary Management'.



The following investment management organisations have, in particular, contributed to the DUFAS Principles of Fiduciary Management:
(in alphabetical order)

AXA Investment Managers Netherlands
F&C Netherlands
Fortis Investments
ING Investment Management (AZL)
Kempen Capital Management
Mn Services
PGGM
Robeco Groep
Syntrus Achmea Asset Management
SEI Investments (Europe) Ltd.
TKP (AEGON)

In connection with the preparation of these DUFAS Principles of Fiduciary Management a market survey was carried out by KPMG consultants. Consecutive drafts of the DUFAS Principles of Fiduciary Management were also discussed with the Dutch Association of Company Pension Funds (*Stichting voor Ondernemingspensioenfondsen, OPF*) and individual pension funds affiliated with OPF.

We would also like to thank De Brauw Blackstone Westbroek N.V. for drafting the Fiduciary Management Agreement template in conjunction with these Principles.

The Hague, 13 November 2008

Annex: Fiduciary Management Agreement template with explanatory notes