I have a confession to make: I have this thing with crises. My kids used to say: "Mom, wherever you go, there's an instant financial meltdown." And they were right, in a way. Earlier in my career, I was working as a securitization lawyer, closing major deals throughout Europe and the US. I remember a celebrative closing diner with my colleagues once in Amsterdam, after closing twenty massive deals in the years behind.

The day we were enjoying dinner was March 16, the year 2000. I brought all my colleagues a little gift, a book about the tulip mania, probably the oldest and for sure the first well documented bubble on the financial markets. The tulip bubble burst in 1637, 83 years before the probably more famous South Sea bubble did its damage.

The tulip mania was a boom in the tulip trade in Holland and Utrecht that started around 1634. During the Dutch Golden Age, the prices of the newly introduced tulip bulbs reached extreme heights. In January 1637, just before the burst, tulip bulbs were sold for more than ten times the annual salary of an experienced craftsman. Traders were also speculating in options on tulips that were still in the ground.

In 1635 a sale was registered for 40 tulip bulbs at a price of 100,000 guilders. At that time, that money would have bought you more than 3,000 fat pigs. The sale of the most famous tulip bulb, called the Semper Augustus, made a record. That sole bulb was sold in Haarlem for 6,000 guilders, the price of a canal house at the time.

Anyway, back to the year 2000. As I handed over the book about the tulip mania to my colleagues, I made the comparison with the dotcom mania that reached its high around that time, and I mentioned the long-awaited IPO of the Dutch internet provider World Online, which was scheduled for the very next day.

The excitement among investors was immense, because at the time everything the dotcom alchemists touched, seemed to turn into gold. This time was *really* different. Well, it wasn’t. The brand-new stocks of World Online turned out to be an epic failure, and the founder of the company Nina Brink was found to have sold her shares for a fraction of the official introductory price shortly before the IPO. The rest is history. The dotcom-crisis was born.

Fast forward, to the fall of 2007. I was appointed as a member of the board of directors of *De Nederlandsche Bank*. According to my kids, this was the starting gun of the big financial crisis ripping for years through the financial industry *as well as* the real economy worldwide.

There's something weird about this last big financial crisis before Covid-19 hit us. Banks played a major role in creating the 2008 crisis. The hunt for returns caused the selling and marketing of irresponsible and endlessly packaged and resold loans. Iconic in that sense were the so-called NINJA-mortgages in the US: no income, no job, no assets, but never mind, you could get a high mortgage anyway. The near meltdown of the financial system that followed dealt a major blow to the public trust in financial institutions, especially to trust in banks. Lehman Brothers fell and soon thereafter Fortis followed as well as the overpromising Icelandic Landsbanki, to name but a few.

DNB does ongoing research into public trust in financial institutions. And what has always puzzled me: We found that during the post crisis years public trust in banks restored much faster than trust in pension funds.

This is strange, because pension funds are not for profit institutions with a social mission. Restoring public trust can't be that hard for them, one might think. Especially when you realize that for decades the Dutch pension system ranks first or second in global pension comparisons, and the Netherlands is one of the countries worldwide with the least poverty among the elderly.

When you take a closer look though, it might not be all that surprising that it *is* actually hard, at least for Dutch pension funds, to regain public trust.

Our pension schemes are complicated and are <u>seen as a black box</u> by most of our members. Besides that, for too many years we kept the myth alive that nothing in life is certain, except… Right: Your pension. A classic case of overpromising and underdelivering.

It is not only our pension schemes that are perceived as a black box. The same applies to <u>the way pension funds have to do their math</u>. With what we experienced over the last couple of years, it was impossible to explain to our members that since 2009 our assets almost tripled due to excellent returns, but still, we couldn't afford to compensate for inflation because of the ultralow interest rates. Some pension funds even had to cut benefits seriously.

The major national pension reform we are currently working on, must tackle some of these issues. But this alone will not be enough to regain public trust. Because there is a third black box that urgently needs enlightenment: <u>The way we invest</u>.

As pension funds, we have one main goal, which is at the core of our license to operate: First and foremost, we have to provide a good and affordable pension. A good return on investment against an acceptable risk level is therefore our main concern. But there are other things to be considered as well, if we want to reconnect with the public. Because we strongly believe that enjoying a good old age means income to live in a world worth living in. Money alone won't buy you this good old age. You need clean air to breath, a safe and fair society and high quality, affordable and easily accessible health care for all. As the Covid 19 pandemic has taught us,, we can not take for granted either of those three in today's world.

So, what should we do with our investments to regain public trust *and* ensure good and affordable pensions? What should be our *modus operandi* as large institutional investors with, in The Netherlands alone, combined pension assets under management totaling up to roughly 1,500 billion euros?

Let me start by saying that much progress has been made over the last ten years. Sustainable investments are at the forefront now, more than ever before. However, there’s still a lot of work to be done. And it's not just about sustainability and responsible investments in the classical sense. It's really about reinventing capitalism.

That might sound bigger than it is. I believe the development of capitalism toward a more inclusive model is already on its way. Nor is the idea completely new. The ruthless form of financial capitalism, with an extreme focus on shareholder value, is under siege for some years now.

We see a move in the corporate world, still cautious though, to greater purpose and greater attention to the interests of society in the broader sense. It’s a movement from shareholders to stakeholders.

The corporate world recently seems to be moving faster than the asset management industry. Asset owners like my pension fund PFZW and asset managers like our service provider PGGM are relatively ahead on the curve, but even we mainly still tend to think two-dimensionally, in terms of financial risk and return. We should be paying more attention to the third dimension: Our license to operate and *social* risk and return.

Recently I listened to a lecture given by Mark Carney, recorded for the BBC. He is now an impact investor, after serving as the Governor of both the Bank of Canada and the Bank of England. I haven’t worked my way through all four hours of Carney’s lectures yet, but the material is fascinating. I warmly recommend listening.

Carney starts with Aristoteles, Karl Marx and Adam Smith and describes how economics were turned into a technological idea, divorced from human interaction. “Divorcing economic capital from its social partner”, as Carney puts it. He shows us how we have come to esteem financial value over human value and how we have gone from market economies to market societies. He argues that this has contributed to a trio of crises: of credit, Covid and climate. Carney believes we can turn this around. First, we have to stop doing what Oscar Wilde described as “Knowing the price of everything, but the value of nothing.”

The technologization of economics, finance and asset management has some perverse effects. The members we work for are 2.9 million workers and retirees in the health and welfare sector. Many of them cannot afford to rent or buy a house in the city they work in. And yet we invest their pension money in negatively yielding bonds, instead of in emission free, comfortable and affordable houses where our members could live, love, and raise their children. Houses that will probably generate - considered decent nowadays - real long-term return of at least 2% for their pensions. Why don’t we? Because we can’t, because we don’t exactly know how, because we’re not allowed to, or because we don’t want to take career and peer risks? It’s probably involves elements of all of the above. But should we nonetheless try? I truly believe so.

I don’t mean to advocate we should put all our members’ money in real estate. Not at all. What I’m trying to say is that we should focus, more than we currently do, on investments we fully understand, closer to home, which are beneficial to our members and society both in a financial and social way, bringing prosperity and welfare in the real economy. And of course, from a risk perspective, we have to spread our investments over asset classes and regions. But the spreading doctrine sometimes seems to be all-determining and the benchmark rules the day.

Before I start to sound too gloomy, let me tell you what we are actually doing already to make a positive impact and what we are *doing* to try to close the gap between the financial industry and society.

We operate a fast-growing impact mandate, currently amounting to 4.5 billion euros. We focus on worldwide investments in accessible health care, climate change mitigation such as clean energy and the reduction of the emission of greenhouse gasses, on the availability of clean water and on food security. In 2025 we will have twenty percent of our assets, around 50 billion euros, allocated to investments directly impacting the UN Sustainable Development Goals. And that's without compromising our main mission: a good return for our beneficiaries.

So, we are on the move. But we still have a lot to learn and a lot to explore. One of our greatest challenges is to fully integrate sustainability into our investment policies and decisions, as well as into those of our external asset managers. Today, from time to time we still find ourselves bogged down in the customs and laws of the technocratic financial economy. Again: We are on the move, but we have a long way to go yet.

There's another path we, as a social financial institution, are walking. Together with our service provider PGGM, we are exploring ways to share our expertise and vast data collection to help the Dutch health care and welfare sector with solving some troubling tendencies, mainly focusing on labor market shortages, high absenteeism and rising disability figures in the sector. It has not been our core business, but we believe we can help. And we should take this step, because a vital and durable health care sector is in the interest of our members, and in the interest of all of us. This is another example of how we try to put our social responsibility into practice.

It's time to wrap up. One last thing about me and crises. After I started as the chair of PFZW, it took almost ten months before the Covid-crisis hit the worldwide economy, and therefore PFZW, amidships. So luckily my kids this time could not connect me to being around the *immediate* start of a crisis. Besides that, they all ended up studying economics. They now finally *do* understand the difference between accidental correlation (their mother being around when crises occur) and causality. And I'm finally freed of silly jokes.