



PRESENTATION GENERAL ASSEMBLY 2022

PFTSA JUNE 17, 2022



AGENDA

- Opening & introduction
- Approval minutes 2021 GAM
- Report by Board
- Highlights 2021 financials (Grant Thornton)
- Actuarial Report (Actuarial Consultancy Caribbean)
- Discharge of the Executive Board
- Events after statement & challenges
- Free word
- Closing

REPORT BY THE BOARD

The Executive Board (“Board”) consists since July 1, 2012 of 2 employer representatives and 2 participant’s representatives. The composition of the Executive Board is as stated here:

Executive Board members	Name
Independent Chairman of the Executive Board	Mr. G.K. Farro
Appointed by the employers	Mr. E.F.C. Albertus Mr. E.O. Croes
Appointed by the participants	Mr. C.E. Heyliger Mrs. M.R. Croes

REPORT BY BOARD

Operations

The Fund has 9 permanent employees, including the Executive Director, who together with the Executive Board are responsible for all the work (pension administration, payout, investment portfolio, communication, etc.) at the Fund.

Committees

As part of the new governance structure of PFTSA the Board has appointed in 2020 three committees, being the Risk and Compliance Committee, the Investment Committee, and the Audit Committee.

Actuariële Bedrijfstechnische Nota” (“ABTN”)

The Executive Board has expressed its policy in the “Actuariële Bedrijfstechnische Nota” (“ABTN”). The ABTN is revised regularly.

REPORT BY BOARD

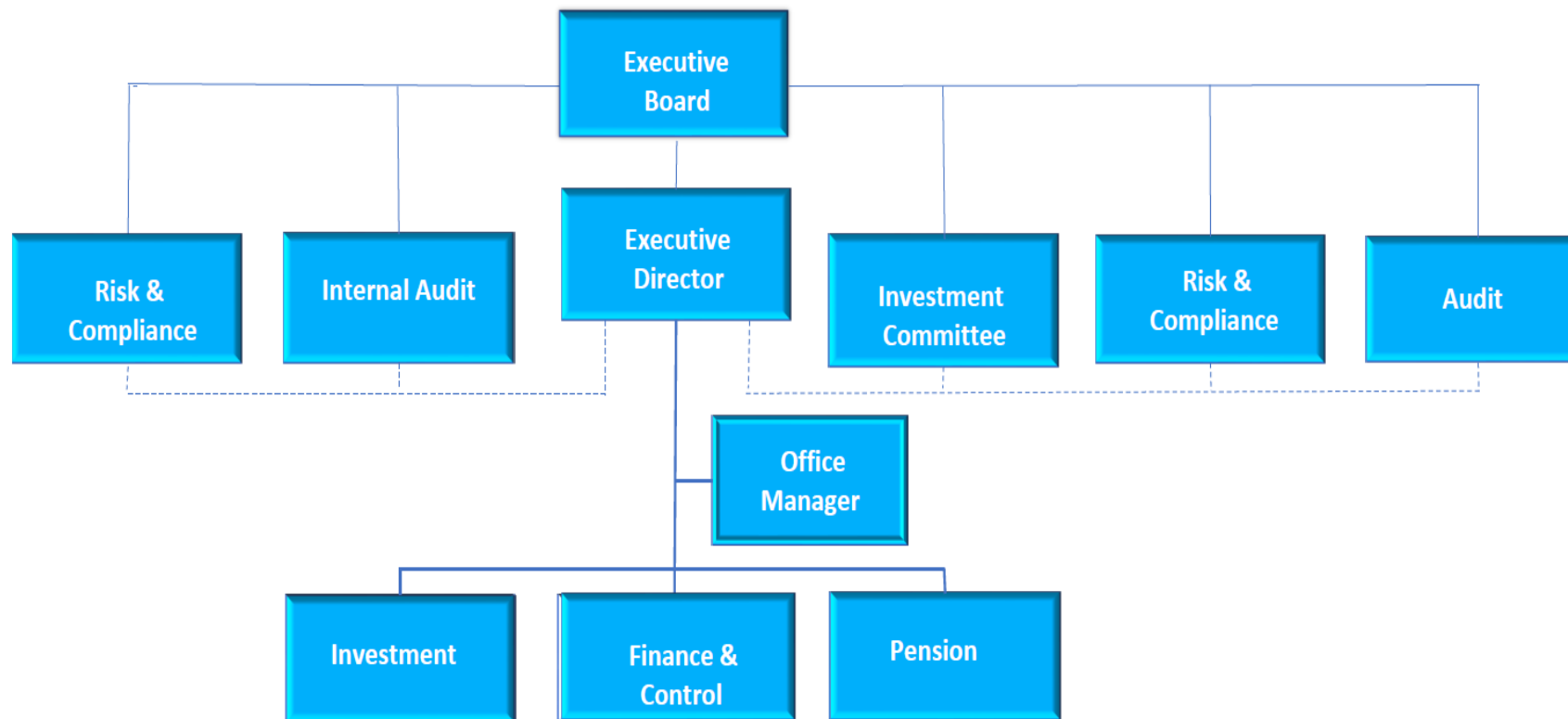
ABTN:

- Mission, vision and strategy of PFTSA have been added in this document
- New organizational structure
 - New organizational chart
 - Introduction of three Committees
 - Risk management (Three Lines of defense model)
- Some pension definitions have been rewritten as described in the State Ordinance on General Pension
- Actuarial principles have been updated as already discussed in 2021
- Disability risk have been removed (since 2019 no disability risk is insured)
- Strategic investment policy updated

REPORT BY BOARD: TOPICS

1. Governance structure
2. Risk Management
3. General economic condition
4. Strategic Investment Policy (SIP)
5. Premium development & membership
6. Ring-fencing policy

PFTSA ORGANIZATIONAL CHART



PFTSA THREE LINES MODEL



RISK MANAGEMENT

- The Executive Board has adopted the Risk Charter, which describes the structure and implementation of the Enterprise Risk Management (ERM) regarding the financial and non-financial risks of the Fund as shown in the next table.

RISK MANAGEMENT

Financial Risk categories	Non- Financial Risk categories
Discount Rate Risk	Environment Risk
Equity Risk	Operational Risk
Valuation Risk	Outsourcing Risk
Credit Risk	IT Risk
Technical Insurance Risk	Integrity Risk
Liquidity Risk	Legal Risk
Concentration Risk	Governance Risk

RISK MANAGEMENT

The main risks to which the Fund is exposed are:

- **Credit risk:** the Fund invests most of its assets in local investments due to supervisory requirements
- **Operational risk:** there is a risk that administrative expenses are not covered by premiums contributions, resulting in prospective fewer benefits for the participants due to reduced returns of assets.
- **IT Risk:** the reliability of the mortgage program may result in adequate reporting or inefficient use of human resources.
- **Credit risk:** adverse economic conditions affecting mortgage holders, dependency on one economy may affect the repayment capacity of mortgage holders or bondholders.

RISK MANAGEMENT: REGULATORY COMPLIANCE

- The Fund's compliance framework is comprised of policies and procedures in the areas of Sound Business Operations as well as robust Anti-Money Laundering and Anti-Financing of Terrorism/Proliferation as per Aruba regulatory legislations.
- Internal controls with a multi-tier defense system ensure that the policies and procedures are adhered to in an effective manner.
- The Fund's compliance officer and reporting officer are tasked with the day-to-day compliance workflows. They work closely with the business units and executive management to implement the policies and procedures and report directly to the risk and compliance committee and the Executive Board.

REPORT BY BOARD: GENERAL ECONOMIC CONDITION

General economic condition

- Following the contraction of 22.6% in the local economic performance in the year 2020, the real Gross Domestic Product (GDP) is estimated to have recovered with 15.5% in 2021 mainly because of an increase in tourism activities and supported by continued Government financial support.
- Based on preliminary projections, real GDP is projected to increase by 7.7% in 2022 thereby remaining 4%-points lower than the 2019 GDP level in real terms.
- However, due to the remaining uncertainties of the consequences of Covid-19 combined with the ongoing conflict between Russia and Ukraine, Aruba still faces considerable possible downside risks. In addition, fragile public finance performances exacerbated by the effects of Covid-19 presents fiscal and economic challenges that need to be overcome in the coming years.

REPORT BY BOARD: GENERAL ECONOMIC CONDITION

General economic condition

- After a long period of relative price stability, Aruba will most probably be facing a possible resurgence of inflation as of the year 2022. The consumer price index increased on average by a very modest 0.7% in 2021, mainly when compared to high inflation rates recorded in other countries.
- However, it is expected that price increases will accelerate in Aruba as well during 2022 Source: CBS Consumer Price Index 2021 (<https://cbs.aw/wp/wp-content/uploads/2021/05/12-December-2021.pdf>)

REPORT BY BOARD: STRATEGIC INVESTMENT POLICY

- The ALM study concluded in January 2021 by Willis Towers Watson analyzed five different asset allocations for the international portfolio.
- Given the size of the Fund, the asset allocation options were restricted to low complexity and highly liquid asset classes.
- Since local assets are mainly allocated in fixed income instruments, the international portfolio is generally overweighed to equity.
- This is also related to the fact that international fixed income products under the current and expected market circumstances do not support the Fund in achieving its objectives.

REPORT BY BOARD: STRATEGIC INVESTMENT POLICY

DC ALM Study

- WillisTowerWatson (WTW) conducted a DC Asset Liability Management (ALM) Study in January 2021. This study generated the outcomes for five straw men in 2,000 scenarios. Calculations were performed based on a contribution of both 6% and 25%. In subject ALM study WTW presented five investment mixes
- WTW proposes to create an international portfolio in line with market capitalization, consisting of 35% global developed equity and 5% emerging market equity.

REPORT BY BOARD: STRATEGIC INVESTMENT POLICY

Based on an assessment of the risk profiles of different alternative compositions of the investment portfolio carried out in the ALM, the board elected to maintain the following composition of the local and international portfolio for the coming period.

Composition investment portfolio

Investment category	Allocation per end 2020	Strategic target allocation
Local	93.4%	60.0%
Regional	2.3%	2.5%
International listed	4.3%	37.5%

REPORT BY BOARD: STRATEGIC INVESTMENT POLICY

- Based on the findings and considerations of the ALM study, it was concluded that it is beneficial for the Fund to create an international portfolio in line with market capitalization, consisting of global developed equity and emerging market equity.
- In this regard due account was taken of the additional volatility that will be incurred in the investment portfolio caused by the geographical shift (also because of the absence of market pricing for the local portfolio) combined with the shift towards a higher equity allocation.
- This increase in volatility of the portfolio creates more opportunities on the upside but also higher risk on the downside.

REPORT BY BOARD:

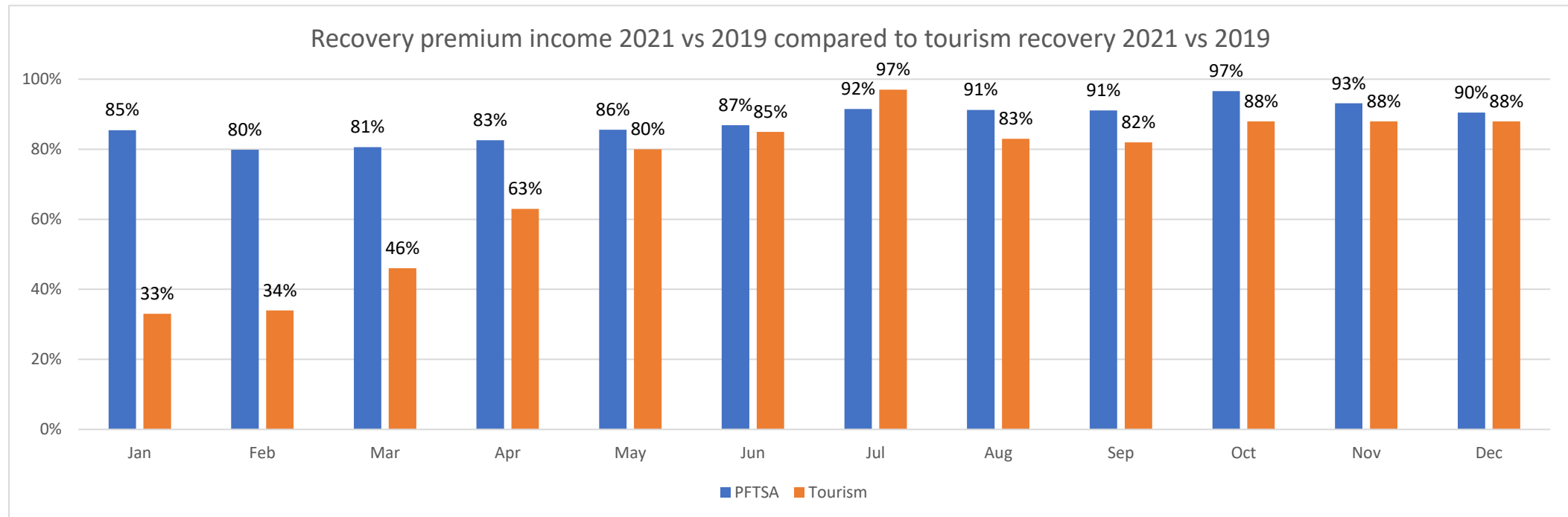
STRATEGIC INVESTMENT POLICY: ASSET CLASS % OF ASSETS UNDER MANAGEMENT

Investment category	Allocation per end August 2021	Strategic target allocation	Bandwidth min - max
Fixed income	76.6%	42%	Min 35%
Equity (including property)	23.4%	58%	Max 65%

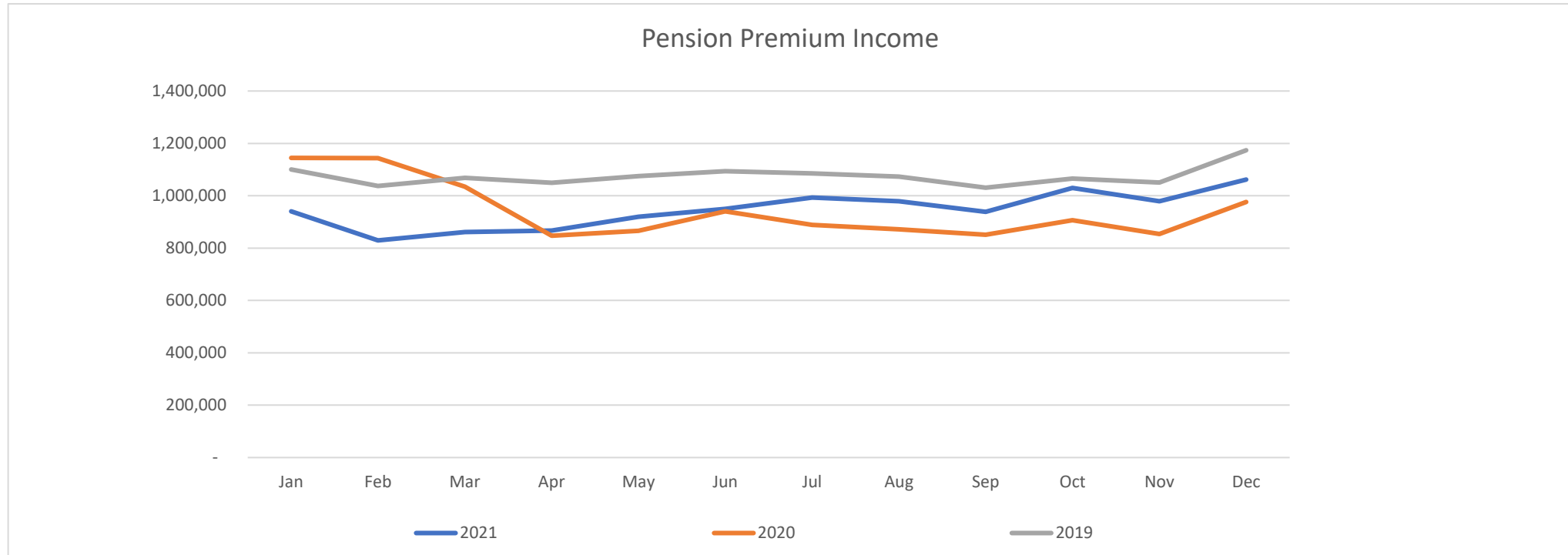
REPORT BY BOARD: COMPOSITION INVESTMENT PORTFOLIO

Investment category	Allocation per end 2021	Strategic target allocation
Local	93.4%	60.0%
Regional	3.1%	2.5%
International listed	3.5%	37.5%

REPORT BY BOARD



REPORT BY BOARD



REPORT BY BOARD: MEMBERSHIP

New members 2021:

- Radisson Blu
- Blue Village
- Natura Development
- Expert concierges

Vested members 2021:

- Aruba Night
- I Love Hookah
- Sweet Peppers Restaurant
- Welcome Marketing

REPORT BY BOARD: MEMBERSHIP

At the end of 2021:

	2021	2020
Affiliated companies	180	176
Active companies	126	126
Vested companies	54	50

REPORT BY BOARD

Movement in active policies	2021
Active policies as of January 1	5,002
New policies from new participants from existing and new affiliated companies	537
Less: Allocation to the following categories: vested policies, new annuitant's policies and policies related to one-time payments and transfers	(728)
Active policies as of December 31	4,811

REPORT BY BOARD: RING FENCING

- PFTSA does not have an explicit policy in place in which the allocation of the investments and costs related to the current DC and DB schemes are determined.
- This policy is necessary because each fund operate based on different requirements/assumptions and characteristics and as it is the case in the Netherlands “cross subsidy” is not be allowed (e.g. costs of one fund is covered by the other fund). In Aruba we do not have such a policy mandate, but we are of the opinion that we should be clear policy in place on the allocation of investments and costs related to each scheme.
- We approached WTW to assist us with drafting a policy on subject matter.

GRAPHIC PRESENTATION OF RING POLICY

Ring Fencing Policy

DB Plan

DC PLan



Status

Accrued Capital

Accrued capital & active policies



Pension date

Purchase fixed pension (rate 4%)

Purchase fixed pension (rate 3.75% for new pensions since June 2020. Before the rate was 4%)

Financial statements presentation

Statement of Comprehensive income

Statement of comprehensive income	2021	2020	Variance	%
For the year ended December 31 in AWG				
REVENUES				
Premium Contributions	11,353,138	11,542,611	(189,473)	-2%
Net investment result for the risk of participants	5,748,101	4,981,947	766,154	15%
Net investment results for the risk of the Fund	914,436	660,131	254,305	39%
Total revenues	18,015,675	17,184,689	830,986	5%
EXPENSES				
Retirement benefits and refunds	1,418,828	998,983	419,845	42%
Changes in the pension provision for the risk of the Fund	284,119	312,947	(28,828)	-9%
Changes in the pension provision for the risk of the participants	13,306,649	12,803,230	503,419	4%
Administrative expenses	2,293,812	2,238,791	55,021	2%
Net value transfers	56,753	3443	-	-
Total Operating Expenses	17,360,161	16,357,394	1,002,767	6%
Total net income for the period	655,514	827,295	(171,781)	-21%
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	655,514	827,295	(171,781)	-21%

Decrease Is mainly caused due to lower pension contribution, seeing as the decline in the salary income of the participants is caused by COVID-19.

Increase in net investment result for the risk of the participants is due to Afl. 544 thousand higher change in fair value of the investments in shares and bonds and Afl. 733 thousand higher interest in bonds. This increase was mitigated with a decrease in loan income mainly from the loan in Wondersea.

Due to the past due obligation of Wondersea for more than 90 days, the interest income has not been accrued anymore since July 2021 and also due to Afl. 367 thousand higher investment charges.

Increase in the net investment results for the risk of the Fund is largely due to the improvement in the change in fair value of the investments in shares through the Solar assets manager.

Lower change in provision than prior year due to lower contribution received.

Statement of financial position

Statement of financial position	2021	2020	Variance	%
For the year ended December 31 in AWG				
PLAN ASSETS				
Investments for the risk of the Fund	12,583,492	12,618,651	(35,159)	0%
Investments for the risk of the participants	97,145,236	87,474,690	9,670,546	11%
Investment property for the risk of the participants	19,299,663	19,288,936	10,727	0.06%
Total non-current plan assets	129,028,391	119,382,277	9,646,114	8%
Short term Investments for the risk of the Fund	2,032,863	1,871,510	161,353	9%
Short term Investments for the risk of the participants	11,979,473	14,932,436	(2,952,963)	-20%
Receivables	2,778,491	3,157,997	(379,506)	-12%
Cash and cash equivalents	13,366,602	5,588,091	7,778,511	139%
Total current plan assets	30,157,429	25,550,034	4,607,395	18%
TOTAL PLAN ASSETS	159,185,820	144,932,311	14,253,509	10%
NON PLAN ASSETS				
Property, plant and equipment	499,322	648,354	(149,032)	-23%
Total non-current non-plan assets	499,322	648,354	(149,032)	-23%
Receivables and prepaid expenses	13,939	22,059	(8,120)	-37%
Cash and cash equivalents	682	650	-	-
Total current non-plan assets	14,621	22,709	(8,088)	-36%
TOTAL NON-PLAN ASSETS	513,943	671,063	(157,120)	-23%
Total assets	159,699,763	145,603,374	14,096,389	10%

1. FUND & PARTICIPANTS

- The increase in plan assets - Investments for the risk of the participant are largely due to the acquisition of new investment, i.e., Afl. 4.5 million bonds in Land Aruba bonds from Meta Fund and FPEF, Afl. 3.4 million loan granted to Makija Holding NV from Ennia Caribe Leven Aruba NV, Afl 2.0 million new Time Deposit at CIBC bank Aruba. This increase was largely offset with the maturity of the USD-Time deposit bonds, which fund has not been reinvested as yet, redemptions according to the payment schedule of APA Loan, SOGA Loan.

2. Investment Property

- The increase is due to revaluation of the properties and increase in the investment in the aircondition units in the property Lands lab.

The increase in cash is due to redemptions of investments which funds were not invested as per 31 December, 2021.

Statement of financial position

Statement of financial position	2021	2020	Variance	%
For the year ended December 31 in AWG				
CAPITAL AND LIABILITIES				
Fund capital	-	-	-	-
Reserves	12,338,741	11,683,227	655,514	6%
Total Pension Fund Capital	12,338,741	11,683,227	655,514	6%
PLAN LIABILITIES				
Provision for pension liabilities for risk of the fund	13,832,949	13,569,222	263,727	2%
Provision for pension liabilities for risk of the participants	130,799,616	117,618,803	13,180,813	11%
	144,632,565	131,188,025	13,444,540	10%
Lease liabilities	893,361	994,703	26,625,353	2677%
Total non-current plan liabilities	145,525,926	132,182,728	40,069,893	30%
Provision for pension liabilities for risk of the Fund	266,209	245,817	20,392	8%
Provision for pension liabilities for risk of the participants	700,905	575,069	125,836	22%
Current lease liabilities	101,342	95,625	5,717	6%
Other liabilities and accrued expenses	391,832	402,068	(10,236)	-3%
Total current plan liabilities	1,460,288	1,318,579	141,709	11%
NON PLAN LIABILITY				
Other liabilities and accrued expenses	374,808	418,840	(44,032)	-11%
Total non-current non plan liabilities	374,808	418,840	(44,032)	-11%
Total capital and liabilities	159,699,763	145,603,374	40,823,084	28%

Increase in the pension liabilities is partly due to more participants and policies in 2021 compared to 2020. We refer for detail to the participant data.

Also, the increase pension liabilities for the risk of the fund is the interest received for the year.

The increase pension liabilities for the risk of participants is less than in 2020 in percentages due to the 3% given to participants in comparison to 3% in prior year due to the COVID-19 pandemic.

We have performed work on the participant data of PFTSA, by testing "basisgegevens". The actuary (a management expert) does the calculation of the provision which is based on assumptions (rekenrente, overlevingskansen etc.)

ACTUARIAL REPORT 2021

PFTSA



FINANCIAL POSITION

Afl 1,000	2021	2020	2019	2018	2017
Total assets	159,700	145,603	130,808	113,148	97,998
Other liabilities	1,761	1,911	1,148	490	626
For pensions	157,938	143,692	129,660	112,658	97,372
Accrued pensioen	145,600	132,009	118,893	103,161	89,105
Surplus	12,339	11,683	10,767	9,497	8,267
Funding ratio	108.40%	108.80%	109.10%	109.20%	109.30%



FINANCIAL POSITION

- Coverage ratio CBA 102.5%
- Assets are enough to cover the pension liabilities
- Financial position is good (funding ratio > 100%)
- Good investment results
- Increase of pension capitals with 3.5%
- More buffers necessary, for extra costs





GAM June 17, 2022

Actuarial Consultancy Caribbean

REPORT BY BOARD: GOING CONCERN ASSUMPTIONS

Overall, based on its assessment of the impact of the COVID -19 pandemic for the year 2021 and beyond, the measures introduced and considering the uncertainties that exist as per the date of issuance of these financial statements, management concludes that it does not consider the impact to cast significant doubt upon the PFTSA's ability to continue as a going concern.

The Fund's liquidity is expected to remain adequate.

The subsequent event has not had any impact on the current year results of the financial statements.

DISCHARGE OF THE EXECUTIVE BOARD

Request to discharge management and the Executive Board for their management during 2021.

EVENTS AFTER STATEMENT AND CHALLENGES

- Projects in progress
- Challenges ahead

EVENTS AFTER STATEMENT AND CHALLENGES

Projects in progress

- Bloemond Housing Project (process of drafting “verkavelingsplan”). Implementation date 2023
- Eagle Center: ongoing conversation with HOH to establish a Dialysis Centrum
- Renovation of Orange Plaza (July- November 2022)
- PFTSA selected a new investment manager for its foreign investment portfolio. The current portfolio is divided between two asset managers & going forward it will be managed by one asset advisor

QUOTE MC KINSEY & COMPANY: “FROM RISK MANAGEMENT TO STRATEGIC RESILIENCE” (MARCH 2022)

“In a volatile world, resilience is an increasingly critical prerequisite for corporate performance.”

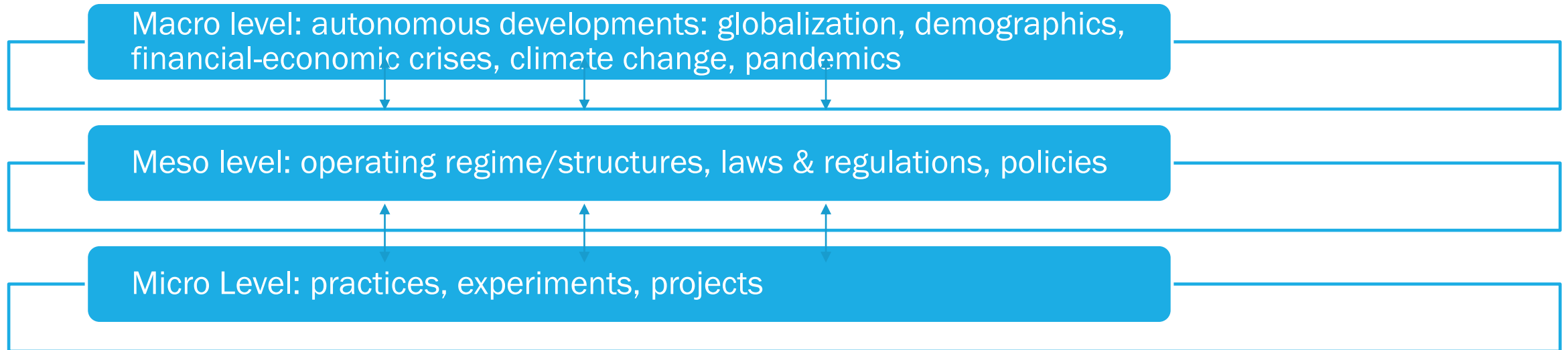
“...organizations are subject to many business challenges, societal uncertainties and geographic tensions. The dynamic pace of change makes disruptions hard to predict, even as they grow in severity and frequency.”

“Companies in all industries thus need to plan for the unexpected and build up their response capabilities in advance.”

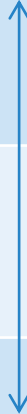
KEY DRIVERS IN THE OPERATING ENVIRONMENT

- The environment in which the fund is operating continues to pose significant uncertainties and challenges. In this regard, the fund is exposed to continued economic, demographic, and operating challenges that impact PFTSA's objectives and operations continuously.
- We are going through transitions in many areas in the coming years and decades (energy, technology, economy, etc)
- Several key challenges have been identified that we believe that are affecting and will shape PFTSA for the foreseeable future.
- These challenges demand ongoing response and our strategic plan aims to address these inherent issues and challenges

IDENTIFY KEY CHALLENGES USING MULTILEVEL CONCEPT



MULTILEVEL

Macro Level		Demographics (aging process), financial-economic crises (2008/2020), Covid-19 pandemic, climate change, digitalization cyberthreats and inflation
Meso Level		Pension & supervisory laws, regulations & policies (e.g. prudential & compliance supervision, financial markets, monetary policy (40-60% investment rule))
Micro Level		Projects, governance structure, practices, staffing, internal procedures & culture

Key challenges facing pension funds in Aruba

1. Financial market and financing requirements:	Growing limitations to find suitable local investment opportunities in combination of declining interest rates/returns & foreign investment restrictions
2. Regulations vis-à-vis economic of scales:	Growing complexity as result of expanding regulatory requirements & scrutiny that impacts the operations in terms of increasing costs & the need for the right organizational scale
3. Information/data security and workflow management:	Increasing importance of information/data security & workflow process management
4. Evolving demographics:	Ongoing aging of the population/workforce (longevity risk) and service expectations among clients
5. Pension systems	Shift from defined benefits to defined contributions pension systems. More individual approach. Social security financing
5. Macroeconomic conditions:	Volatile and external dependent tourism-based economy which can impact our member employers

CHALLENGES AHEAD

- In order to cope with these challenges four company pension funds in Aruba (including PFTSA) have initiated conversations to examine options for cooperation in the areas of:
 - Creating local investments pools
 - Share costs related to governance and compliance requirements
 - Integrate pension activities
- Discussion with Centrale Bank van Aruba led to CBA agree to eliminate the current sectoral restriction for pension funds
- Meeting was held with the Minister of Labor to initiate the process of amended the current pension law & to eliminate the sectoral restrictions.

FREE WORD

Questions?

CLOSING

**We would like to thank you for your attention
&
be safe**