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Nestlé European Pension Fund  
Irish Section

# Member Update

October 2017

## Investments

The NEPF achieved an overall return of 6.3% over the year to 31 December 2016

## Increase in fund value

The value of the NEPF increased to €156.2 million at 31 December 2016



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# Welcome

## From Brussels

Welcome to this year's Member Update.

In this issue you'll find a summary of the accounts for the NEPF for the year ending 31 December 2016, as well as information on investments and funding and a reminder of how the NEPF is run.

We are pleased to report that the value of the NEPF increased modestly during the year to €156.2 million at 31 December 2016. The overall funding level also improved to 114% at that same date on a long-term funding basis.

The Board remains committed to running the NEPF in the best interests of all its members.

### **Jean-François Vaccaro**

Chairman of the Board, NEPF

## From Dublin

The Irish Pension Council met twice during 2016.

It's our responsibility to specifically consider issues relating to Irish pensions, including communication and administration.

The Board of the NEPF has responsibility for any funding or investment decisions relating to the assets of the Irish Section. However, the Irish Pension Council continues to monitor Irish-specific assets such as the AVC policies and to oversee the management of a rental property on Grafton Street in Dublin that forms part of the NEPF's investment portfolio.

At our meetings we receive regular funding and investment updates, as well as details of any other relevant governance or legislative issues affecting the Irish Section.

### **Nuala Barry**

Chairman, Irish Pension Council

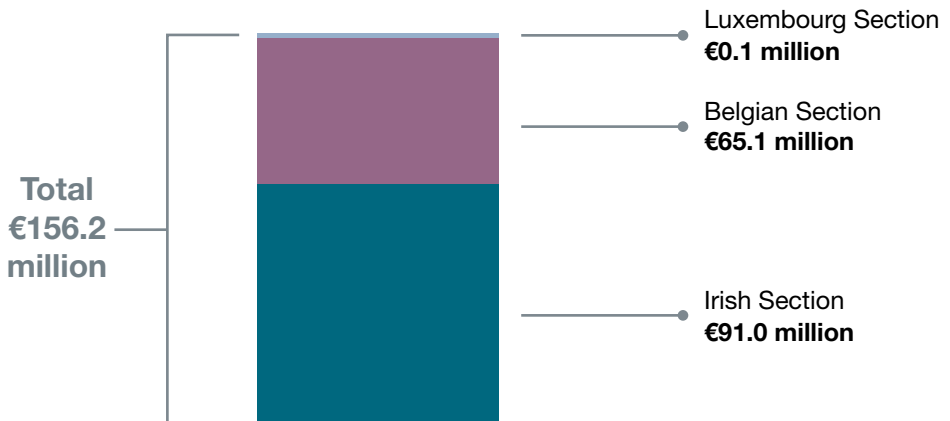
# Value of the NEPF



## Info point

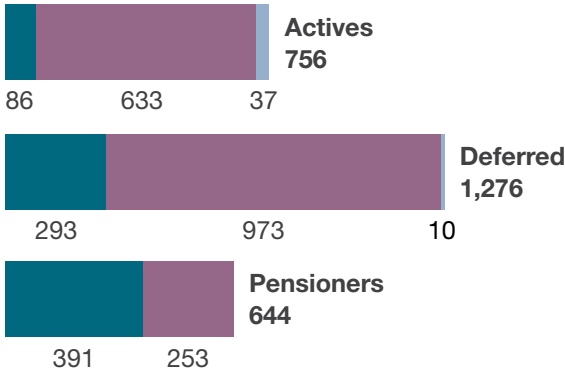
The NEPF is a cross-border pension fund which manages pension arrangements for Nestlé Group employees in three European countries – Belgium, Luxembourg and Ireland. It is one single legal entity, with responsibility for the assets and liabilities of six separate pension schemes. From a legal perspective, the assets of all of the participating schemes are managed collectively. However, in practice, the NEPF administratively ring-fences the assets and liabilities of each individual scheme based on parameters such as the asset value at the point each scheme transferred to the NEPF.

**At 31 December 2016, the assets were allocated as follows:**



# Membership

## Membership as at 31 December 2016



### Key

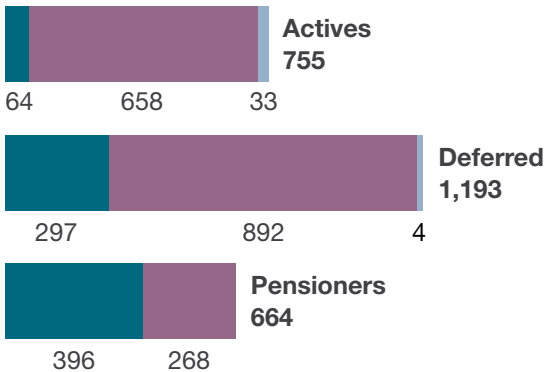
- Ireland
- Belgium
- Luxembourg

Total members in NEPF in 2016

2,676



## Membership as at 31 December 2015



Total members in NEPF in 2015

2,612



# Income and expenditure

Here's a summary of the NEPF's accounts for the year ending 31 December 2016, compared with the year ending 31 December 2015.

<b>Monies coming into the NEPF</b>	<b>€000 2016</b>	<b>€000 2015</b>
Company contributions	3,973	3,172
Member contributions including AVCs and transfers-in	464	630
Annuities, investment and other income	426	434
Change in value of investments	9,019	5,303
<b>Total</b>	<b>13,882</b>	<b>9,539</b>

<b>Monies going out of the NEPF</b>	<b>€000 2016</b>	<b>€000 2015</b>
Benefits payable	5,750	5,708
Administration expenses	847	950
Investment / legal expenses	100	104
Tax	-	1,234
<b>Total</b>	<b>6,697</b>	<b>7,996</b>

## Info point

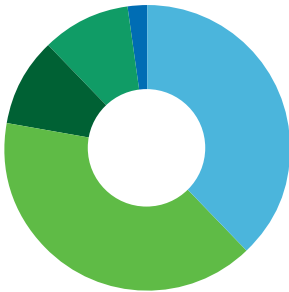
As the NEPF is based in Belgium, the annual accounts are prepared in accordance with Belgian accounting standards. This means there are some differences in the items that are accounted for and the way in which they are accounted for, compared to pension fund accounts prepared using Irish accounting standards.

# Investments

The assets of the NEPF are invested in accordance with its **Strategic Asset Allocation (SAA)**. The SAA sets out what percentage of the NEPF's overall assets should be invested in a particular type of investment or asset class over the long term.

The SAA is decided based on the findings of an annual Asset Liability Modelling (ALM) study. An ALM study is a detailed financial report, which considers all of the potential financial, economic and demographic risks that might impact on the NEPF's financial health, for good or bad, over the long and short term. It also makes recommendations as to how the NEPF might best invest its monies to offset these risks and ensure that it has sufficient monies in future to pay all of the pensions built up by members in the various NEPF schemes. An ALM study took place at the end of 2016 but the calculations led the Board to keep the SAA unchanged.

**The Strategic Asset Allocation as at 31 December 2016 was:**



Bonds	38%
Equities (including private equity)	40%
Property	10%
Hedge funds	10%
Cash	2%

## Activity during the year:

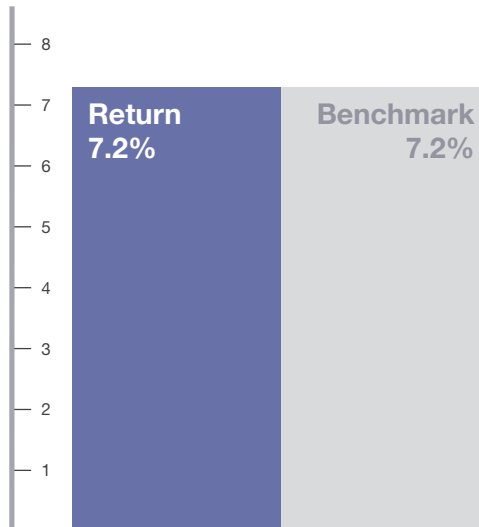
- No major changes were made to the SAA during 2016;
- The bond portfolio continued to invest more in corporate bonds than in government bonds and a share is also allocated to inflation-linked bonds to take into account the economic situation;
- Some of the NEPF's holdings in currencies other than euros were hedged to help reduce net exposure to exchange rate fluctuations.

## Investment performance

The NEPF achieved a return of 6.3% on its assets (compared with a benchmark of 6.0%) in the year to 31 December 2016. 2016 was another complex year in terms of investments. Inflation went slightly higher but at a controlled pace. Interest rates remain at an historical low level, despite the fact that the Federal Reserve System was able to start hiking again. Bonds suffered from the economic environment. Equities benefited from the post-US election rally, especially from a euro-based investor perspective, as the US dollar depreciated against the euro.

**Benchmark** – a reference measure used for comparative purposes, in this case the investment return against which an investment fund is measured.

Over the three years to 31 December 2016, the NEPF has achieved the following returns:



### Info point

The Investment Managers' fees are borne by the NEPF and are a percentage of the market value of the assets which they manage on behalf of the NEPF.



# Funding

**Every year, the Board of the NEPF produces a funding update to let you know how the NEPF is doing.**

To do this, the NEPF's Actuary compares the value of the NEPF's assets (the money it has available including any debts and receivables) against its liabilities (the estimated amount of money it needs to ensure that in future it can pay the benefits members have already earned). Comparing the assets with the liabilities gives a funding level, which indicates whether the NEPF has a surplus (more money than it needs to pay members' benefits) or a deficit (less money than it needs to pay members' benefits).

Under Belgian funding regulations, the Actuary is required to value the liabilities on both a 'short-term' and 'long-term' basis, using different assumptions. The NEPF as a whole, and each of its sections, must be at least 100% funded on the short-term funding basis at all times. If any section is found to be less than 100% funded, the sponsoring employer of that section is required to make an additional payment as soon as possible (within the same calendar year) to bring the short-term funding level back to 100%.

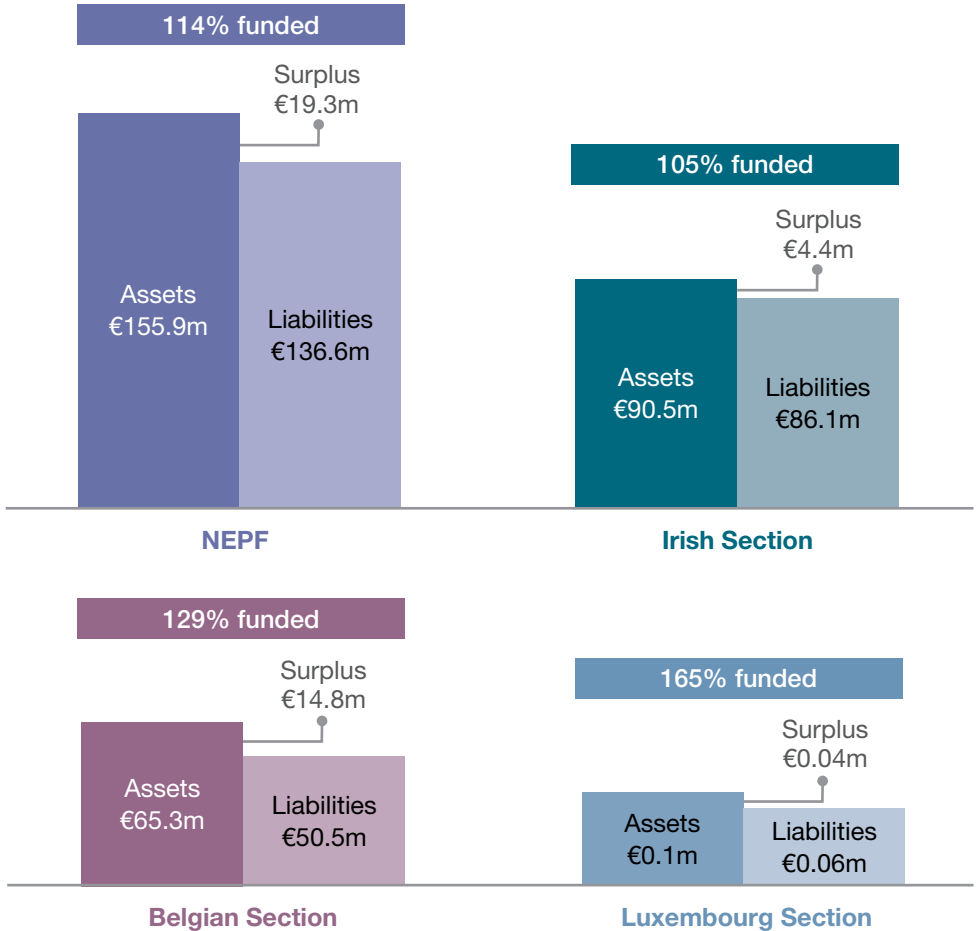
Additionally, if any section is found to be less than 100% funded on the long-term funding basis, a formal recovery plan has to be put in place, under which the employer makes additional contributions to remove the deficit within a five-year period.

## Info point

The Board of Directors of the NEPF and Irish Pension Council are satisfied that appropriate procedures are in place to monitor and ensure that both member and employer contributions are received in accordance with the Rules of the Irish Section and Irish legislative requirements as set out under Section 58A of the Pensions Act 1990, under which:

- Member contributions must be received within 21 days from the end of the month in which they were deducted from pay; and
- Employer contributions must be received in accordance with the timings noted by the Actuary in the Schedule of Contributions or as stated in the Rules or otherwise within 30 days of the end of the Scheme year.

**This is how the NEPF and its sections were funded as at 31 December 2016 on a long-term basis:**



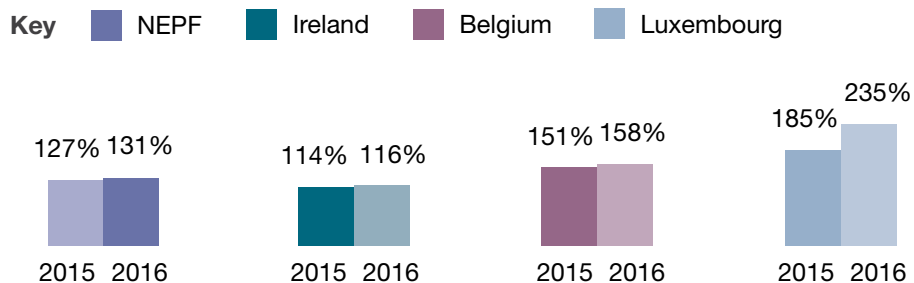
**Info point**

The asset values used to calculate the funding levels are lower than those stated on page 4 because the Actuary does not have to take the monies invested in the NEPF's defined contribution plans into account in the calculation.

## What's changed since last year?

In the year to 31 December 2016, funding improved on both a long-term and short-term basis in both the NEPF as a whole and in each of the individual sections.

You can see how the long-term funding levels changed in each of the sections in the diagram on the previous page. The short-term funding levels changed as follows over the same period:



The main reason for the improved funding levels was the positive investment returns achieved over the year.

Many different factors influence the funding levels year on year – for example, the value of the assets as well as the assumptions used to perform the calculations. The assumptions are reviewed every year and can change from time to time, taking into account market conditions. This year the Actuary used similar assumptions to last year, but it is possible that the assumptions may change next year as a result of the ALM study (see page 7) that was being carried out during 2016 and this might have an impact on the funding levels reported in next year's funding update.

### Info point

The NEPF calculates funding levels using a Belgian funding basis. This is different to the Minimum Funding Standard that is used to test the funding level of defined benefit pension schemes based in Ireland and uses different assumptions to calculate the liabilities.

# Other things we need to tell you

Under Irish law, we are required to tell you about the risks associated with the NEPF. The main risk is that there could be a shortfall in the NEPF's assets. In the unlikely event that the NEPF has to be wound up and there is a shortfall that Nestlé is unable to make up, the appointed liquidator would determine a priority order for the discharge of benefits to different categories of members.

## Pension increases

Pensions in payment are reviewed annually and increased in line with the annual movement in the Consumer Price Index (CPI) up to a maximum of 4%. Increases are applied as at 1 January, based on the annual movement in CPI to the end of the previous November. If CPI inflation is negative, no increase is applied. The following increases were awarded:

- At 1 January 2016: No increase was awarded as CPI movement was negative (-0.2%) in the year to 30 November 2015.
- At 1 January 2017: No increase was awarded as CPI movement was negative (-0.1%) in the year to 30 November 2016.

Deferred pensions are revalued annually in accordance with the Pensions Act 1990. The rate declared for 2016 was 0%.



## Documents you might like to see

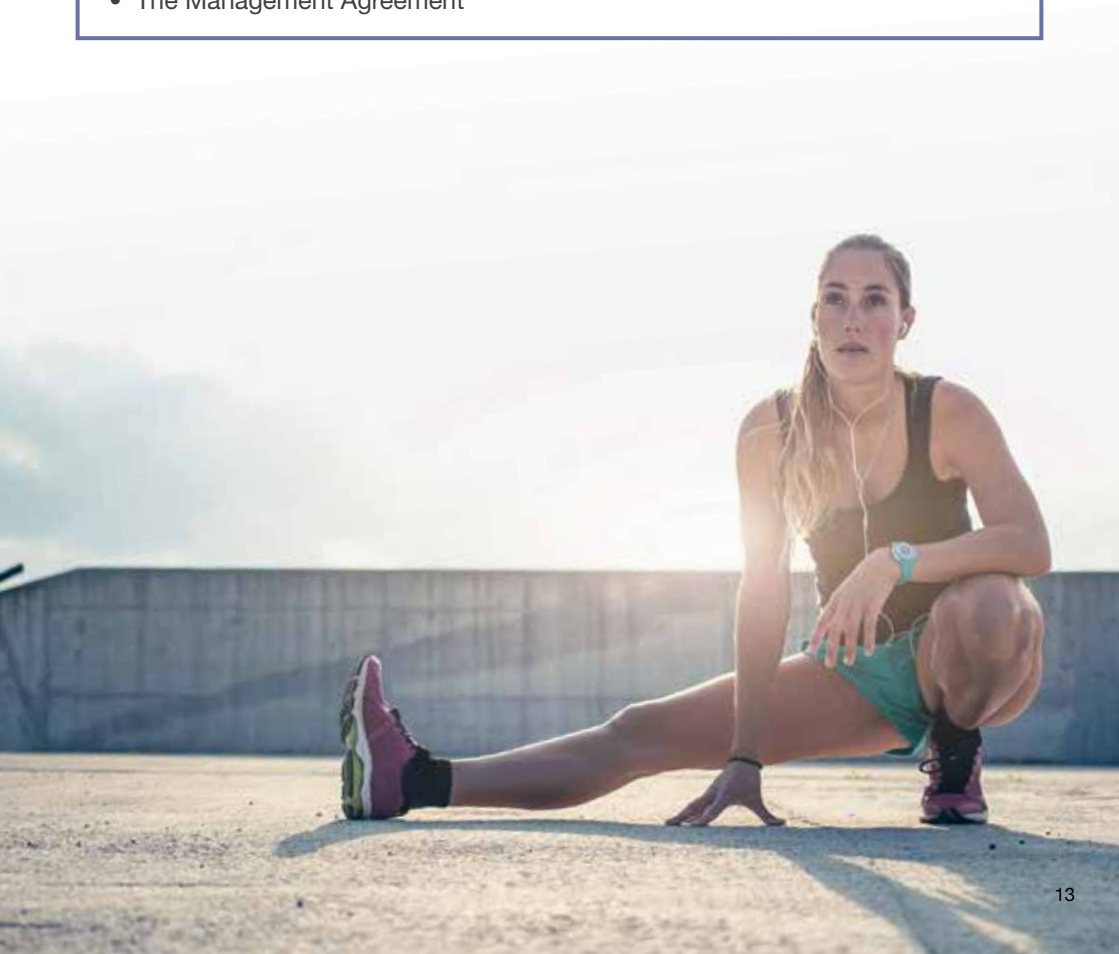
The following documents are available on request from Mercer (Ireland) Limited:

### About the NEPF

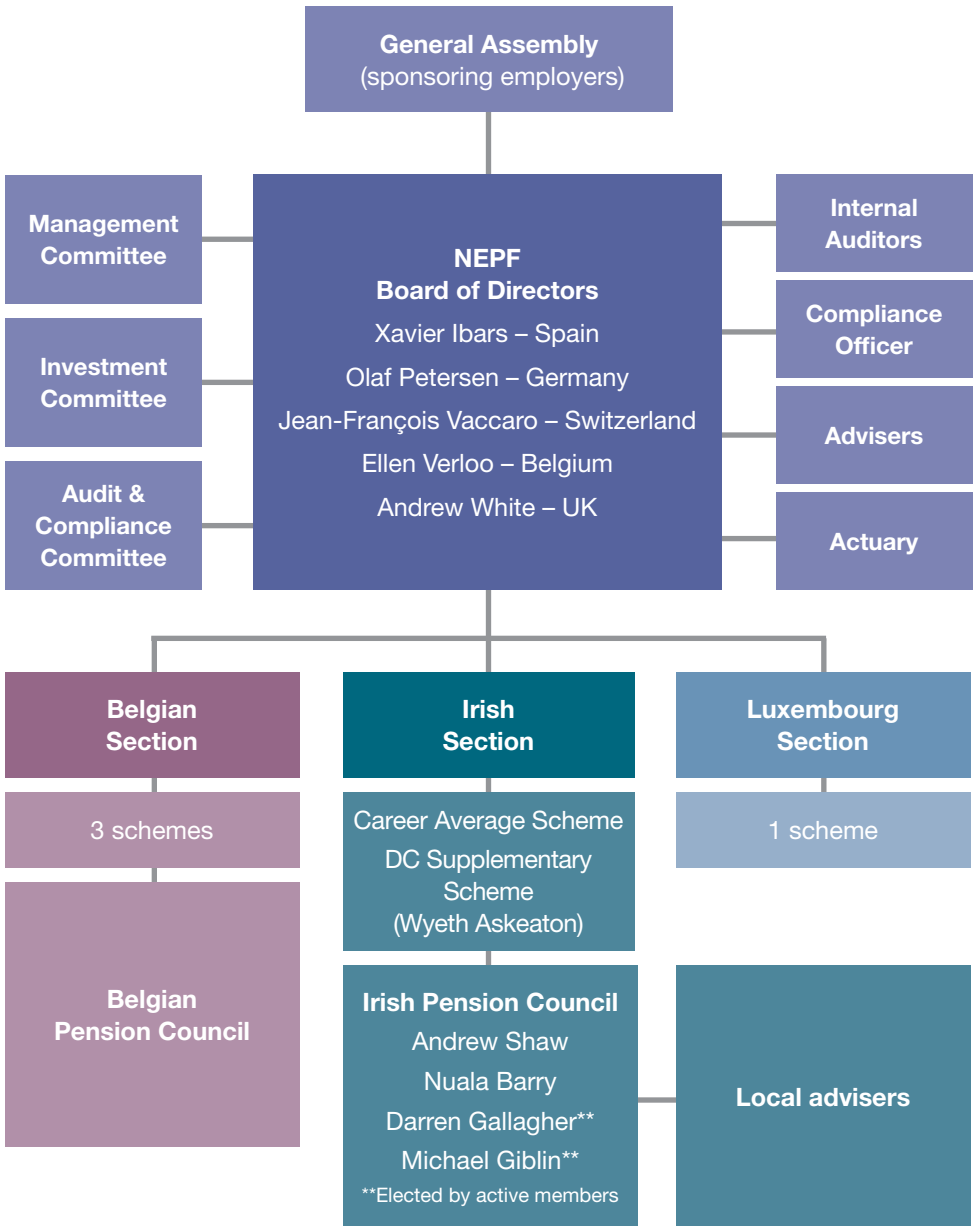
- By-Laws
- Statement of Investment Principles
- Actuarial Report
- Annual Accounts
- Financing Plan
- The Management Agreement

### About the Irish Section

- Irish Section Rules
- Constitution and Powers of the Irish Pension Council



# How is the NEPF run?



**The Board of Directors is the overall ‘Trustee’ of the NEPF. It is responsible for all decisions relating to funding and investment for all sections of the NEPF and for complying with all statutory requirements.**

The six Directors are Nestlé Group employees from various countries, who have relevant professional experience. They meet four to six times a year and are assisted by a number of specialist advisers.

The Directors are appointed by the General Assembly, which meets once or twice a year and consists of representatives from the various sponsoring employers.

In addition, the Irish and Belgian Sections have local Pension Councils, made up of Nestlé and member-nominated representatives. The representatives on the Irish Pension Council are the four previous Trustee Directors of the former Nestlé (Ireland) Pension Fund. The Pension Council meets a couple of times a year to consider Irish pension issues and legislation. It is not responsible for investment or funding issues, but is informed of them and can make recommendations to the Board of Directors.

## The Advisers

### NEPF

**Administration** – Aon Hewitt

**Actuary** – Thierry Verkest, Aon Hewitt (Belgium)

**Auditors** – KPMG

**Bankers** – BNP Paribas Fortis, AIB (closed in 2016)

**Custodian** – Northern Trust

**Investment advisers** – Nestlé Capital Advisers

**Investment managers** – State Street Global Advisers, Nestlé Capital Management, Blackrock, Pimco, various other managers

**Solicitors** – Claeys & Engels

**Underwriter** – Generali

### Irish Section

**Actuary** – Cathal Fleming, FSAI, Mercer (Ireland) Limited

**Administrators** – Mercer (Ireland) Limited

**AVC providers** – Irish Life Assurance plc, The Equitable Life Assurance Society, Standard Life Assurance Limited, Friends First Life Assurance Company Limited

**Solicitors** – William Fry (Ireland), Loyens & Loeff (Belgium)

## About the NEPF

The NEPF is a cross-border pension scheme registered with the Financial Services and Markets Authority in Belgium under FSMA reference number 50.111. Its registered address is:

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Rue de Birmingham, 221  
1070-Anderlecht  
Brussels  
Belgium

**Email:** [nepf@be.nestle.com](mailto:nepf@be.nestle.com)

Please address any correspondence to the above address for the attention of the Compliance Manager.

## Member contact details

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**Website:** [www.nimpensions.co.uk](http://www.nimpensions.co.uk) (password: citywest)