Member Update

June 2020

Welcome

From NEPF

The Nestlé European Pension Fund OFP (NEPF) is a crossborder pension fund registered in Belgium and complies with the prudential law applicable in this country.

The biggest changes in 2019 were set in motion by the new European wide 'IORP II' legislation and its translation into Belgian law. Most significant was the appointment of a risk manager and the formalization of our existing risk management structure.

We have also continued to work on our governance within the framework of the guidance provided by the Nestlé Group in terms of pension matters. Concerning crossborder transfers, we continued with the preparation for onboarding the Nestlé Portugal pension plan in 2020.

After a challenging 2018, asset performance in 2019 rose by around 16%. This allowed the Board of NEPF to lower the discount rate, while keeping the Fund fully funded on both a global basis and for each of the sections it is running.

In this edition we will also update you on the consequence of the current pandemic on NEPF and on the plans it manages.

Andrew White
Chairman of the Board

From the local section

It was the seventh year running that NEPF manages, with the assistance of Mercer, the Defined Benefit plan for Irish Employees.

As for every pension plan managed by NEPF, local Social and Labour Laws apply and the benefits offered are part of a broader compensation & benefit package.

The Board of the NEPF has responsibility for funding and investment decisions relating to the assets of the Irish section. However, the Pensions 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.

In relation to the risk sharing mechanism an adjustment was agreed to be made to contributions to align with the 60/40 employer/ employee split.

Because of the good market performance throughout 2019, the investments of NEPF showed a positive performance. The current pandemic, however, has had short-term adverse impacts on the investments of NEPF. This might lead to a short-term underfunding of the Irish Section, but this will eventually be only short-term and have no impact on the projected benefits of the plan members.

Andrew Shaw
Chairman of the Pension Council

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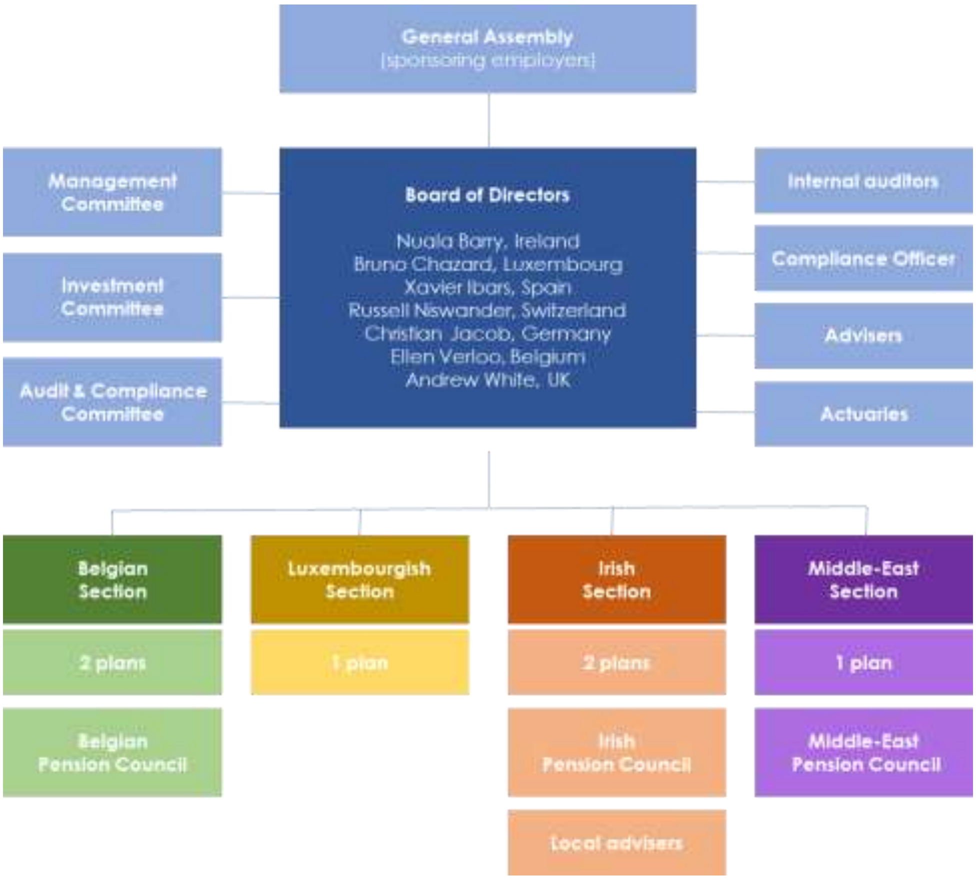


The Board of Directors has the overall responsibility for all decisions relating to funding and investment for all sections of NEPF and must comply with all statutory requirements. It is the overall "Trustee" of the fund.

The current seven Directors are all Nestlé Group employees from various countries who have relevant professional experience. They meet four to six times a year and are assisted by a range 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, local sections can create Pension Councils to consider local pension issues and legislation. The Belgian and Irish Pension Councils are made of Nestlé and member-nominated representatives. The Middle-East consists of employer representatives only and broadened its scope in 2020 to activities and countries beyond the sole remit of NEPF. Because of size, the Luxemburgish section waived on a dedicated pension council to the benefit of direct communication with members.

The advisers

NEPF

Internal auditor:
Steven Cauwenberghs, BDO

Appointed actuary:
Thierry Verkest, AON Belgium

Compliance officer:
An Van Damme, Claeys & Engels

Risk Manager:
Thierry Verkest
AON Belgium

Data Protection Officer:
Laurence Troussart
BDO

Statutory auditors:
Maurice Vrolix, Deloitte Belgium

Investment advisers:
ORTEC
Willis Towers Watson

Investment managers:
BlackRock, Pimco and various other investment managers

Legal advice:
Claeys & Engels

Underwriter:
Athora Belgium

Irish section

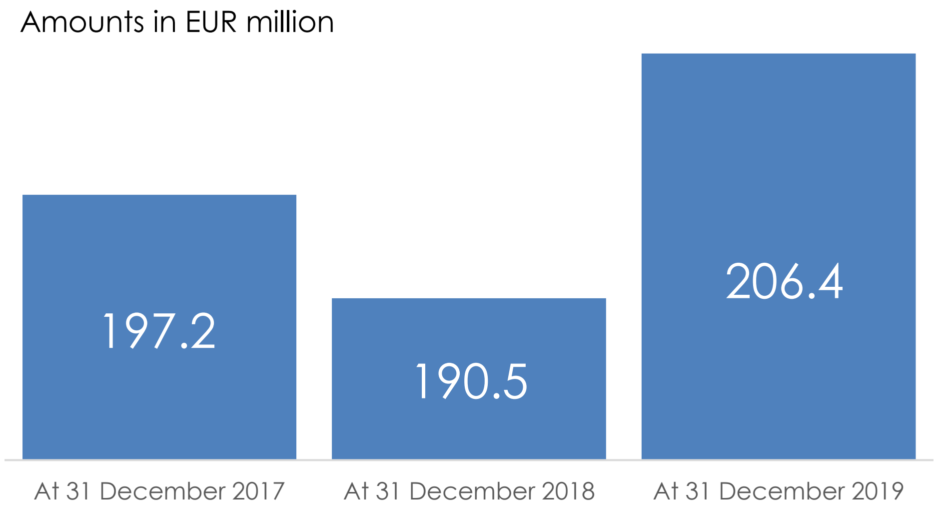
Administration:
Mercer (Ireland)

Local actuary:
Mercer (Ireland)

The pension councils are not responsible for investment or funding issues but are informed of them and can make recommendations, if they feel appropriate.

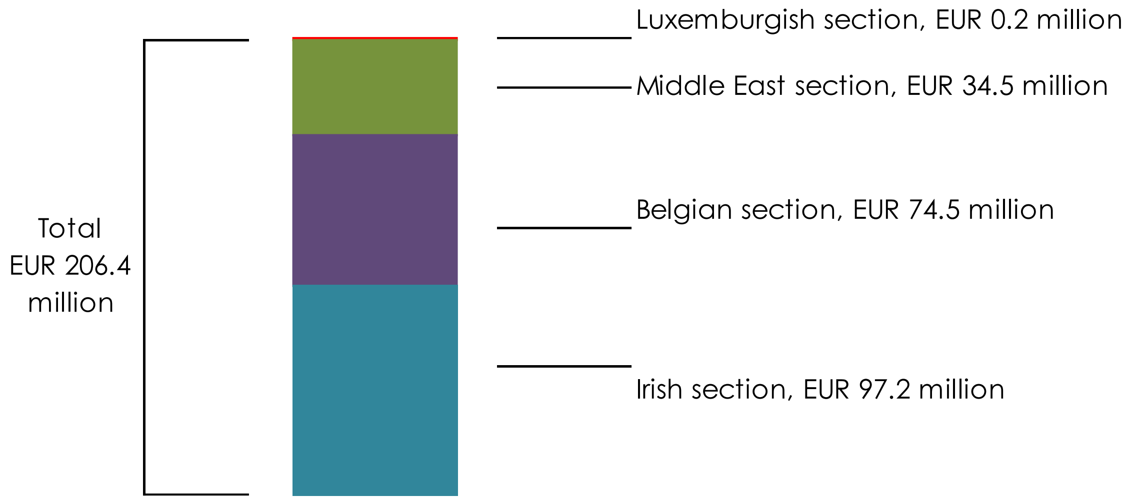
Value of NEPF

As reported by the appointed actuary of the fund the total value of NEPF established as follows:



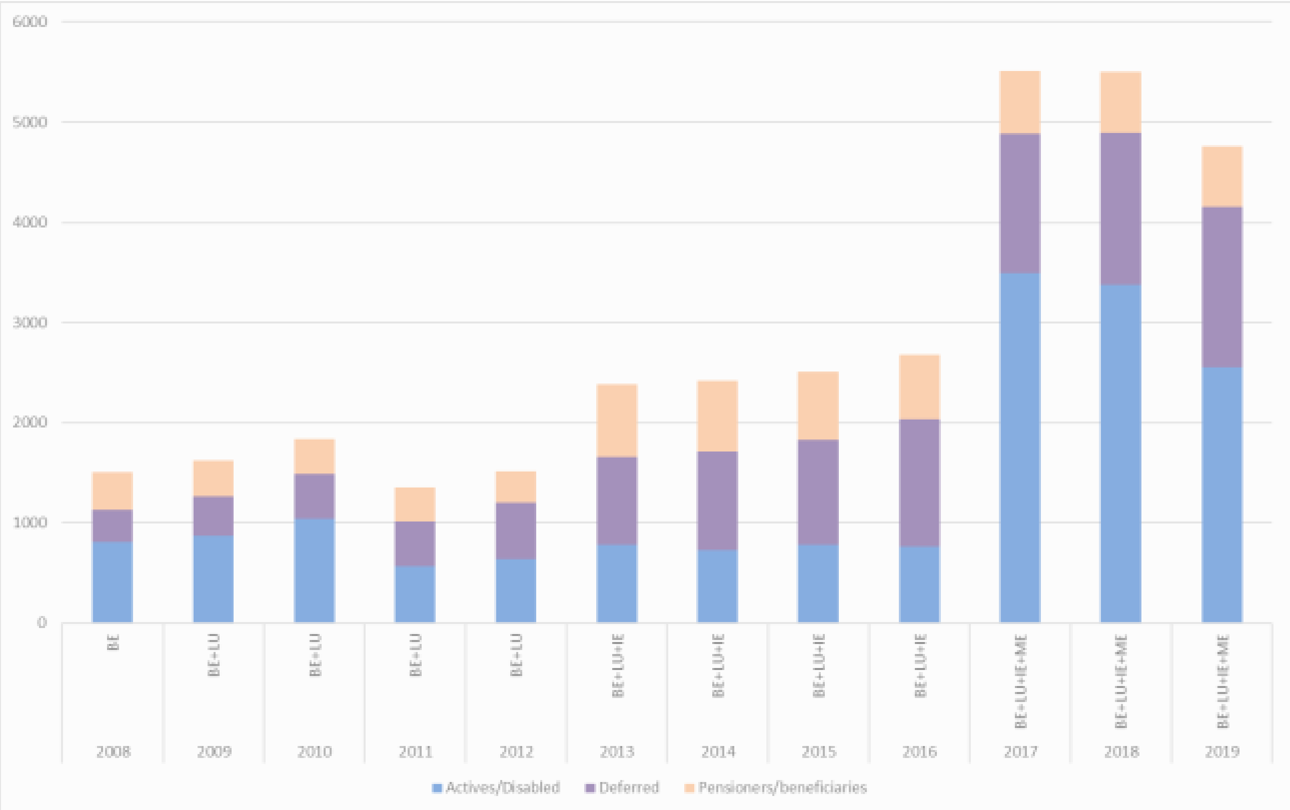
The Nestlé European Pension Fund OFP (NEPF) is a cross-border pension arrangement designed to manage pension plans for Nestlé Group employees in several countries and geographical areas. It now runs four different sections covering Belgium, Luxembourg, Ireland and several countries in the Middle-East. It is one single legal entity, with responsibility for the assets and liabilities of all pension plans (six in total at this stage) and it has been entrusted with their management. With the exception of pure defined contribution plans, the assets of the plans are managed collectively. However, in practice, NEPF administratively ring-fences assets and liabilities of each individual plan/section based on parameters such as the value of the assets at the point each plan is transferred to NEPF

As at 31 December 2019, the assets were allocated by sections as follows:


Total
EUR 206.4
million
Luxemburgish section, EUR 0.2 million
Middle East section, EUR 34.5 million
Belgian section, EUR 74.5 million
Irish section, EUR 97.2 million

Membership data

NEPF manages six pension plans over four different sections. In Belgium and Luxembourg, membership to a pension plan is automatically obtained whereas in Ireland and the Middle East it is optional. The increase in members is largely explained by the inclusion of other sections. In 2010 Luxembourg joined NEPF, in 2013 Ireland and in 2017 the Middle East. The decline in 2019 is mainly due to a change of plan in the Middle East and the option to opt out and not enter the new plan. At the end of 2019, NEPF had 4'754 members.



Membership as at 31 December 2019

	Belgium	Luxembourg	Ireland	Middle-East	NEPF
Actives / Disabled	578	35	116	1'821	2'550
Deferred	1'246	16	325	19	1'606
Pensioners/ Beneficiaries	236	0	362	0	598
Total	2'060	51	803	1'840	4'754

Membership as at 31 December 2018

	Belgium	Luxembourg	Ireland	Middle-East	NEPF
Actives / Disabled	608	39	111	2'618	3'376
Deferred	1'172	13	319	16	1'520
Pensioners/ Beneficiaries	239	0	371	0	610
Total	2'019	52	801	2'634	5'506

Income & expenditure

As NEPF is a Belgian based pension fund, the annual accounts are prepared in accordance with Belgian accounting standards and are audited accordingly. 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 that would be prepared using other local standards.

The big difference in the Benefits paid between 2018 and 2019 was caused by the transition of the plan in the Middle East and the opt-out option chosen by 25% of the members. The change in actuarial assumptions used to calculate technical provisions of defined benefit schemes triggered an increase in the Technical result. The increase in the Financial & Operating result was caused by a good year in the markets.

Below is a summary of the P&L account of NEPF for the three most recent years.

Figures in thousand EUR	2019	2018	2017
Technical result			
Company contributions	9'789.1	10'055.0	5'520.7
Employee contributions including AVCs and transfer-in			
Benefits paid	-17'346.0	-7'267.8	-7'649.3
Change in valuation of technical provisions	-12'925.1	-4'109.1	-28'716.0
Net transfer from/to another fund	-1'809.1	-762.0	34'834.3
Annuities, reinsurance and other items	-1'198.2	-1'148.6	-1'543.1
Total	-23'489.2	-3'232.5	2'446.5
Financial & Operating result			
Investment and other financial income	249.3	282.4	345.9
Investment & banking expenses, taxes	-139.7	-227.6	-100.7
Net changes due to currency fluctuations	-1'828.2	-3'606.3	5'874.1
Net changes due to market movements	29'133.6	-3'506.6	4'283.0
Administration expenses	-1'163.7	-878.9	-855.5
Total	26'251.2	-7'937.0	9'546.8
Net result	2'762.0	-11'169.4	11'993.3

Investments

Benefits are funded by contributions received but also by the performance achieved on the assets of the fund. In the case of defined benefit plans, these are invested in accordance with a Strategic Asset Allocation (SAA), which has been designed to achieve the required expected level of performance over the long run. The SAA sets out the percentage of how 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 regular Asset Liability Modelling studies. ALM studies are detailed financial reports, which consider all the potential financial, economic and demographic risks that might affect NEPF's financial situation, for good or bad, over the short and long term. They also make recommendations as to how NEPF might invest its money to offset risks and ensure sufficient money is set aside to pay all benefits earned by members in the various plans managed by NEPF.

NEPF conducted such an ALM study during 2019 with the assistance of the Investment Advisor, Ortec. The new strategy was implemented at the beginning of 2020.

The Strategic Asset Allocation as at 31 December 2019 was:

Bonds	45%
Equities (including private equity)	38%
Property	10%
Hedge funds	5%
Cash	2%

Within each main asset class, NEPF has further divided its allocation to benefit from diversification. For example, over recent years, the bond portfolio of NEPF has been invested primarily in high quality corporate bonds, while also keeping some allocation to government bonds and inflation-linked bonds.

Following the ALM study, the Board reconfirmed its willingness to allocate part of the assets of the fund to private equity. NEPF effectively started to build up this allocation in 2017 and continued to do so in 2019.

Diversifying the asset allocation worldwide brings some opportunities to investors like NEPF; however, it comes with currency risk. As currency fluctuations are not expected to add value over the long run, NEPF has to mitigate currency risk. For that purpose, the fund is hedging back most of the holdings in currencies other than EUR when dealing with assets of the plans of the EUR-denominated sections.

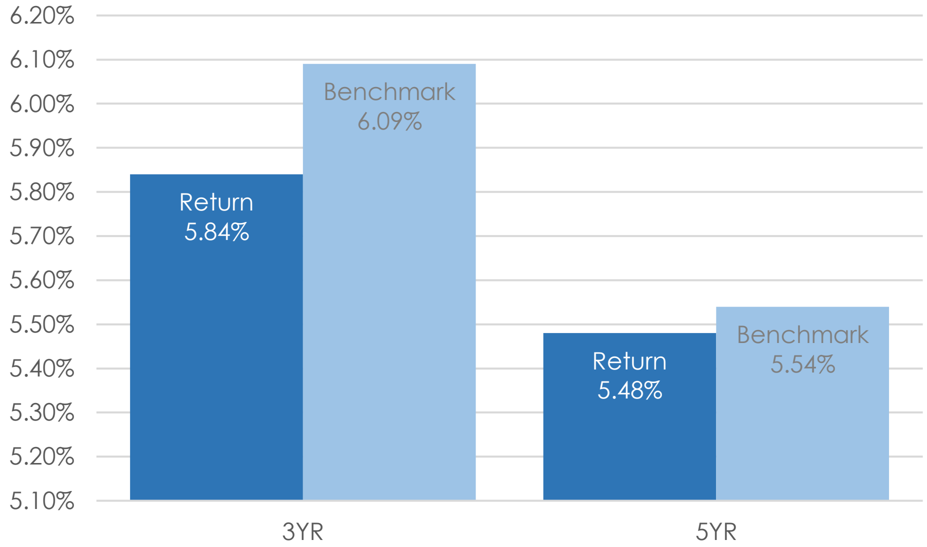
For defined contribution plans, the same broad requirement of having an appropriate risk/return profile stays, but the responsibility is transferred to the members. The latter is offered investment options designed to meet a certain risk/return profile within a certain investment horizon. However, it should be noted that these investment options are subject to short-term fluctuations.

Investment performance

NEPF maintains one allocation to invest the funds of the defined benefit plans (base currency is EUR). The suitability of this portfolio for all related pensions plans is reviewed on a regular basis. NEPF achieved a return of 16.22% on its assets, net of investment expenses, during 2019.

All managers are given long-term objectives that can be combined in a global theoretical benchmark for the Fund that gives some indication on the quality of the portfolio managers and of the allocation decisions. Last year, the performance of the EUR-section was not materially different from the performance of this benchmark (8bps lower).

Over the three and five year periods to 31 December 2019, the overall return was positive with NEPF achieving the following returns:



For information, performances are reported net of the cost of managing the assets, i.e. including transaction costs or the fees paid to asset managers. These are calculated as a percentage of the market value of the assets, which they manage on behalf of NEPF.

Funding levels

The Board of NEPF regularly monitors the adequacy of the funding of promised benefits. Every year the fund publishes a funding update at a total level as well as on a country by country basis. This essentially relates to defined benefit or cash-balance plans, as the liabilities of defined contribution plans are, by construct, fully matched by the assets in member accounts.

For the purpose of assessing the funding level, the Appointed Actuary of the Fund compares the value of NEPF's assets (i.e. the money it has available including any debt and receivables) against its liabilities (i.e. the estimated amount needed to ensure that in the future all benefits owed to the members can be paid). Comparing the assets with the liabilities gives a funding level, which indicates whether NEPF has a surplus or a deficit.

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

Additionally, if any section is found to be less than 100% funded on the long-term funding basis, a formal recovery plan must be established, under which the sponsoring employers make additional contributions to remove the deficit within a five-year period.

NEPF is satisfied that appropriate procedures are in place to monitor and ensure that both employer and employee contributions are received according to local rules relevant to the pension plans and especially, for the Irish plans, 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 Plan Rules or otherwise within 30 days of the end of the Scheme year.*

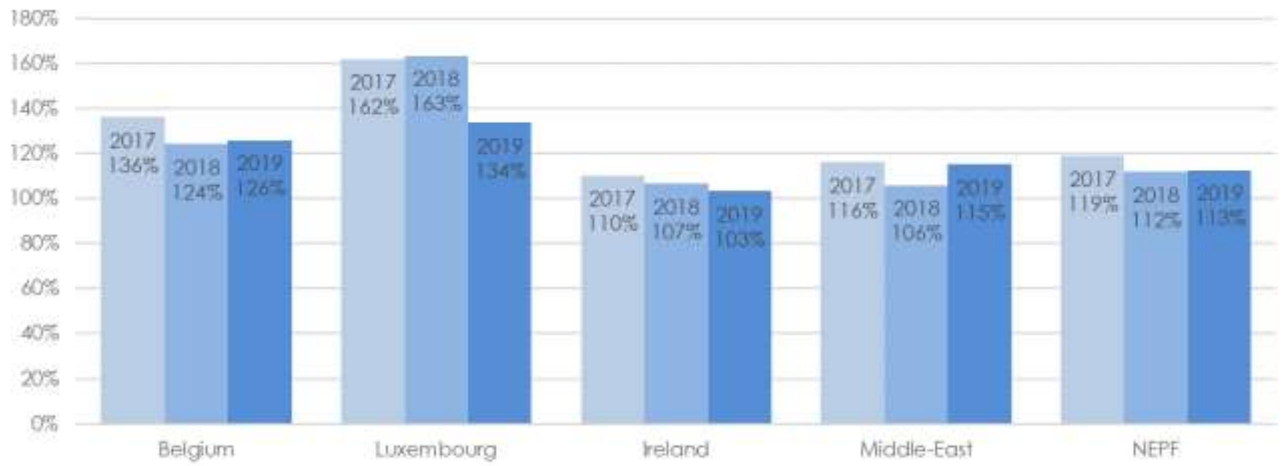
As at 31 December 2019 the funding levels on a long-term basis for the total fund and each of its sections were established as follows:

	Belgium	Luxembourg	Ireland	Middle-East	NEPF
Assets	74.5m	0.2m	97.2m	34.5m	206.3m
Liabilities	59.2m	0.1m	94.1m	30.0m	183.4
Surplus	+15.25m	+0.05m	+3.10m	+4.53m	+20.17m
Funding Level	125.8%	133.7%	103.3%	115.1%	112.5%

Congruous with Belgian laws, NEPF was satisfactorily funded at a global level and for each section, at the end of last year.

Evolution of the funding levels

During 2019, funding increased on the short-term basis. On the long-term basis, the funding of Luxembourg and Ireland decreased while the others increased. The funding ratio of NEPF as a whole increased. Over the recent years, the funding level has stayed above the 100% mark, which means the plans have continued to be fully funded. The graphs below show the evolution over the past three years of the long-term funding level:



The main reason for the increase in the funding levels on the short-term and for Belgium and Middle-East on the long-term, was the positive performance achieved on investing the assets of the Fund. The small decrease for Ireland and Luxembourg can be explained by the change in discount rate and in the buffer applied on liabilities as a safety cushion. NEPF decided to drop the discount rate from 4.5% to 3.5% to be more aligned with the long-term expected return on assets. The decision was also made to increase the buffer from 20% to 23% to further increase the safety margin. Except for the discount rate and buffer, no other major changes in assumptions were applied in 2019.

Congruous with the terms of the Financing Plan of the Fund, having reached a satisfactory funding level, lowered employer contributions have been applied for the Belgian plans.

NEPF calculates funding levels using a Belgian funding basis. This might differ from methods applied elsewhere and especially the Minimum Funding Standard that is used to test the funding level of defined benefit pension plans in Ireland. The methods applied for calculating statutory funding levels for pension funds might also diverge from the way these are accounted according to IFRS standards.

The continuity in the method is key to assess the financial situation of a fund and the main objective will always remain allowing the fund to pay all its promises.

Impact of the COVID19 pandemic

During the first months of 2020 the performance achieved on the various asset classes in which the pension plans of NEPF are invested experienced a setback due to the Covid-19 crisis. The impact is however different for each asset class depending on the underlying risk/return profile.

As at June 1st, the performance of the assets of the EUR-sections is negative year-to-date by 7-9%, offsetting part of the good results of previous year. More importantly, the current pandemic is expected to push the global economy into a recession with long lasting effects, accompanied by a lot of uncertainty. However, portfolio diversification proved efficient, limiting the negative impact on performance.

Members of defined benefit and cash balance plans will not see any direct change in their benefits linked to the performance of the assets, while members of defined contribution plans will see the value of their assets fluctuate depending on how they are effectively invested.

In the context of the current pandemic, defined contribution plan members that are exposed to the most conservative strategies have been protected from the short-term downturn, as money-market instruments and government bonds are exhibiting positive returns. Members more exposed to listed equity and/or real estate will have seen the value of the accounts adversely impacted by the short-term fluctuations on these markets.

In the recent turmoil, the more defensive strategies (with no exposure to so called risky assets) performed well, with modest positive return year-to-date. At the other end of spectrum, strategies more exposed to risky assets, benefited from the sustained performance in 2019, but suffered most from the recent collapse. Although the markets can be expected to recover on the long-run, there is no guarantee, especially on the timing.

It is impossible to predict the future. However, asset allocation and investment options offered to members are designed for the long-term. The recent pandemic and the related strong market correction were statistically exceptional, but such extreme events are considered when constructing portfolios. When deciding to exit one asset class to enter another, you crystalize the fluctuations at that time. Members of defined contribution should refrain from taking hasty decisions and remember that these are long-term investments.

Documents you might like to see

The following documents are available on request from your pension plan administrator or through NEPF (contact details at the end of the present document)

About NEPF

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

About your section

- Plan rules
- Constitution and Powers of the local Pension Council (if relevant)

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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1070-Anderlecht
Brussels
Belgium

Email: 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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