Fonds de Pensions Européen Nestlé OFP
Nestlé Europees Pensioenfonds OFP
Nestlé European Pension Fund OFP

Nestlé

Member Update

June 2021

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 year 2020 has been marked by uncertainties linked to Brexit (effective from 1st of Jan), the US elections and, last but not least, the pandemic. From the deep late March, markets recovered and have allowed for a positive performance, ultimately. Beyond this positive note, the long-lasting effects shall be considered when looking for the future.

In this edition there is a part dedicated to the influence of the pandemic on NEPF and business continuity in specific.

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. NEPF also had a small supplementary group of individuals transferred in November, these formed a new section dedicated to retirees of NEPF. 1st of April 2021, NEPF also welcomed the Portuguese pension plans.

The implementation of the IORP II directive and the translation into Belgian law continued with a focus on ESG related to investments and the publication requirements towards members.

Andrew White
Chairman of the Board

From the local section

It was the eight 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.

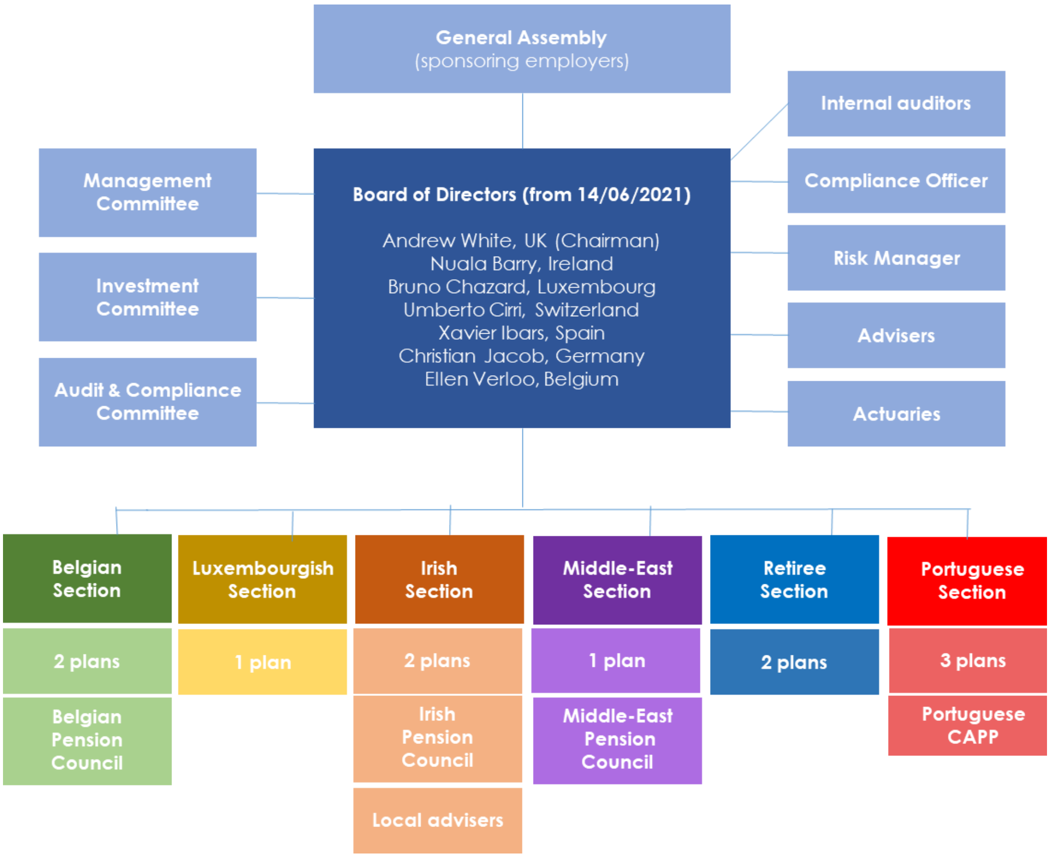
In relation to the risk sharing mechanism an adjustment was agreed to be made to contributions to align with the 60/40 employer/employee split.

The year 2020 confirmed that the Irish section cannot be fully immunized against short-term volatility and drawdowns. The strong performance on assets achieved in the last weeks of the year allowed for maintaining similar funding levels of the Irish section Year-on-Year. However, NEPF secured an additional contribution (paid in 2021) to further strengthen the financial situation of the section.

Kieran Conroy
Chairman of the Pension Council

Contents

How is the NEPF run?



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. Normally they meet four to six times a year in person, but this year all meetings were held remotely. The directors 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 and the Retiree section waived on a dedicated pension council to the benefit of direct communication with members.

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

The advisers

NEPF

Internal auditor:
Steven Cauwenberghs, BDO

Actuarial Function:
Thierry Verkest, AON Belgium

Compliance officer:
Jan Van Gysegem, Claeys & Engels

Risk Manager:
Thierry Verkest
AON Belgium

Data Protection Officer:
Laurence Troussart
BDO

Statutory auditors:
Maurice Vrolix, Deloitte Belgium

Investment advisers:
ORTEC

Investment managers:
BlackRock, Pimco and various other investment managers

Underwriter:
Intercona Re

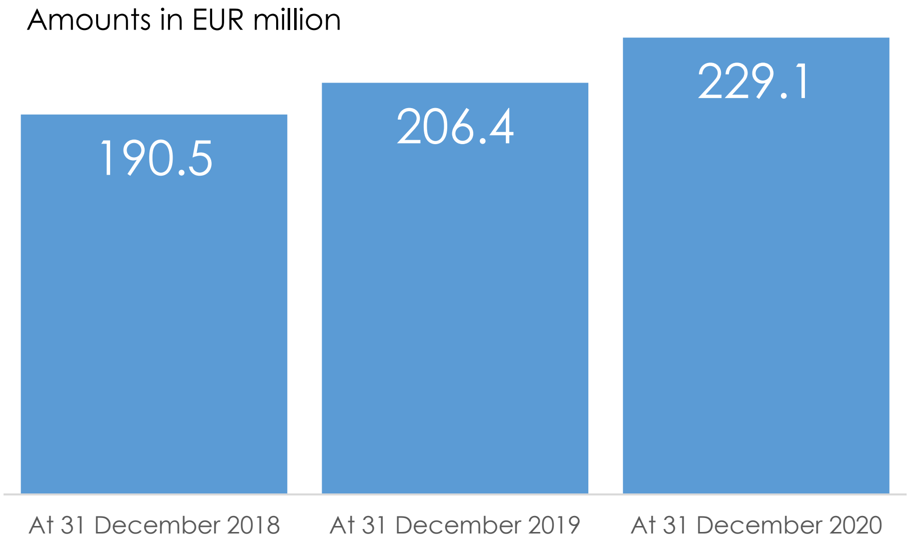
Irish section

Administration:
Mercer (Ireland)

Local actuary:
Mercer (Ireland)

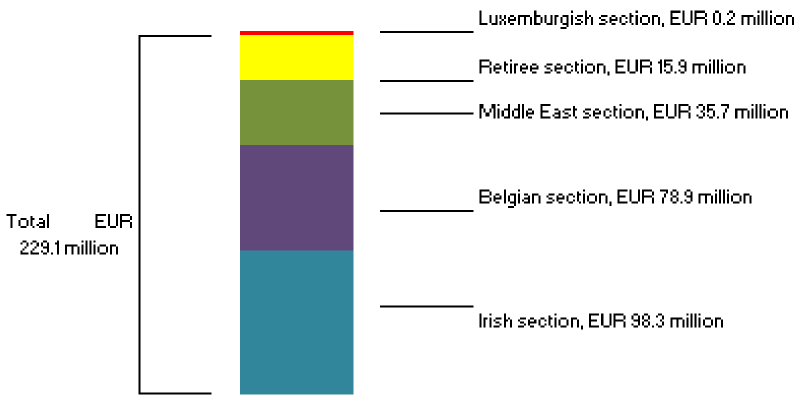
Value of NEPF

As reported by the actuarial function of the fund the total value of NEPF established as follows:



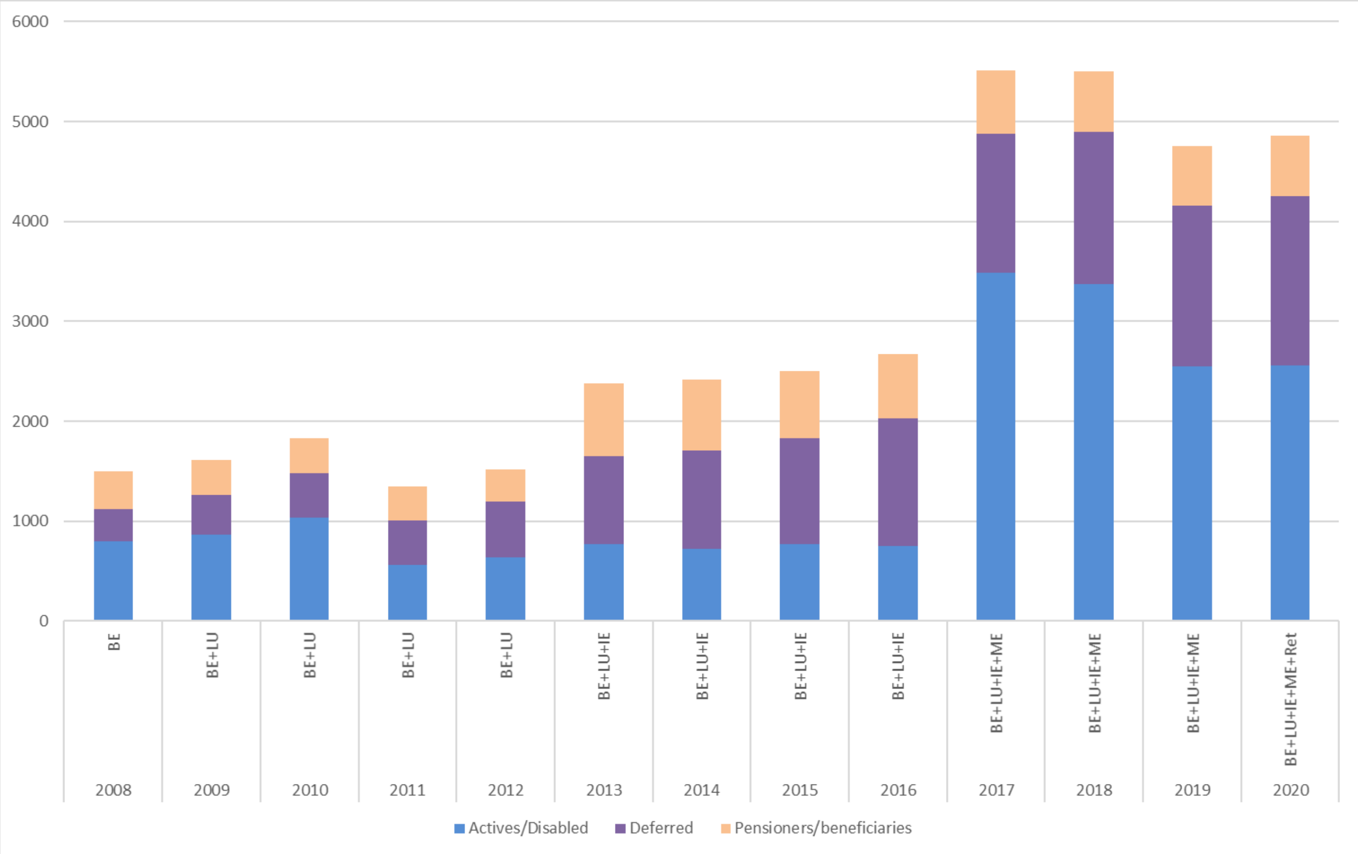
The Nestlé European Pension Fund OFP (NEPF) is a cross-border pension arrangement designed to manage pension plans for Nestlé Group employees in several countries and geographical areas. From the 1st of April, NEPF now runs seven different sections covering Belgium (CB + DB), Luxembourg, Ireland, Portugal, several countries in the Middle-East and a section with retirees from Galderma. It is one single legal entity, with responsibility for the assets and liabilities of all pension plans (nine 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. The increase of the assets in 2020 was mainly caused by the transfer of the assets of the retiree section (15 million), the rest was realized by good market performance.

As at 31 December 2020, the assets were allocated by sections as follows:



Membership data

As of 1st of April, NEPF manages nine pension plans over seven 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. In 2020 the Retiree section was added to NEPF, but this were only 13 pensioners. At the end of 2020, NEPF had 4856 members. The Portuguese section was added on the 1st of April 2021 and is not shown in the charts.



Membership as at 31 December 2020

2020	Belgium	Luxembourg	Ireland	Middle-East	Retiree	NEPF
Actives / Disabled	591	37	104	1829	0	2561
Deferred	1293	18	364	19	0	1694
Pensioners/ Beneficiaries	228	0	360	0	13	601
Total	2112	55	828	1848	13	4856

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

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 2019 and 2020 was caused by the transition of the plan in the Middle East in 2019 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 a decrease in the Technical result. The increase in the Financial & Operating result was caused by a good year in the markets, not as good as the year before.

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

Figures in thousand EUR	2020	2019	2018	2017
Technical result				
Company contributions	9'500.1	9'789.1	10'055.0	5'520.7
Employee contributions including AVCs and transfer-in				
Benefits paid	-6'579.9	-17'346.0	-7'267.8	-7'649.3
Change in valuation of technical provisions	-18'206.7	-12'925.1	-4'109.1	-28'716.0
Net transfer from/to another fund	14'979.9	-1'809.1	-762.0	34'834.3
Annuities, reinsurance and other items	-936.3	-1'198.2	-1'148.6	-1'543.1
Total	-1'242.9	-23'489.2	-3'232.5	2'446.5
Financial & Operating result				
Investment and other financial income	102.5	249.3	282.4	345.9
Investment & banking expenses, taxes	-141.5	-139.7	-227.6	-100.7
Net changes due to currency fluctuations	1'043.6	-1'828.2	-3'606.3	5'874.1
Net changes due to market movements	5'714.1	29'133.6	-3'506.6	4'283.0
Administration expenses	-1'277.2	-1'163.7	-878.9	-855.5
Total	5'441.5	26'251.2	-7'937.0	9'546.8
Net result	4'198.7	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 and remained unchanged throughout the year.

The Strategic Asset Allocation as at 31 December 2020 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.

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.

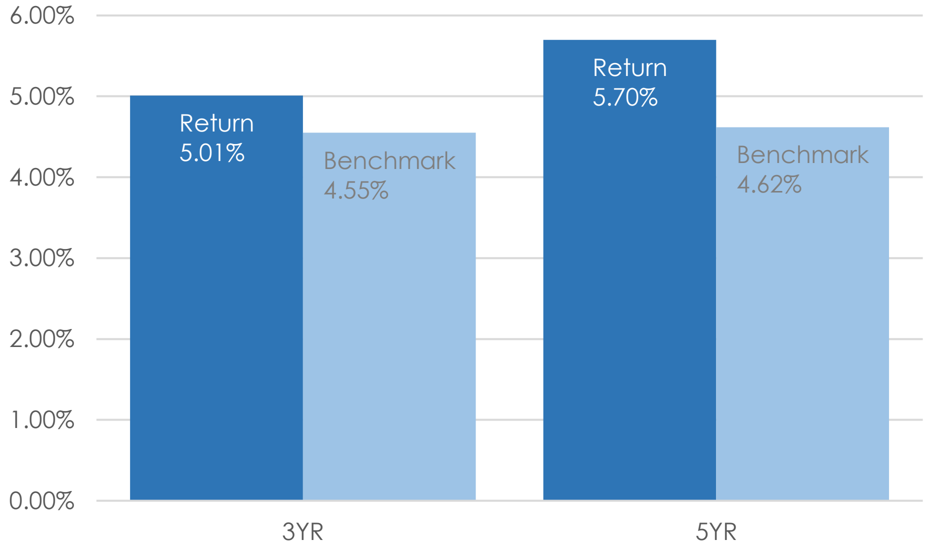
For defined contribution plans, the same broad requirement of having an appropriate risk/return profile stays, but the responsibility is transferred to the members. The latter is offered investment options designed to meet a certain risk/return profile within a certain investment horizon. However, it 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 4.6% on its assets, net of investment expenses, during 2020.

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 2020, 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. The costs and fees of managers have no influence on the acquired rights of the members.

ESG

With the successive entry into force of the Directive EU 2016/2341 (the so-called IORP II directive) and of the Regulation EU 2019/2088 (SFDR) and EU 2020/852, pension funds have to take into account E(nvironmental), S(ustainability) and G(overnance) factors into account in their decision making process and have certain reporting requirements assigned to them.

Long prior to these requirements, NEPF recognized the need for tackling ESG issues and made a first step by integrating ESG considerations in its investment policy (2012). The Fund however recognized the limitation it could face when trying to implement principles. More recently (2018), the Board of NEPF approved its first formal ESG policy but has only been able to scale-up and start implementing its principles in 2021, with the use of ESG screened mutual funds. With more products being available, NEPF will continue its ESG journey.

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 2020 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	Retiree	NEPF
Assets	78.9 m	0.2 m	98.3 m	35.7 m	15.9 m	229.1 m
Liabilities	62.7 m	0.2 m	93.5 m	31.4 m	14.1 m	201.9 m
Surplus	16.2 m	0.1 m	4.8 m	4.3 m	1.8 m	27.1 m
Funding Level	126%	138%	105%	114%	113%	113%

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

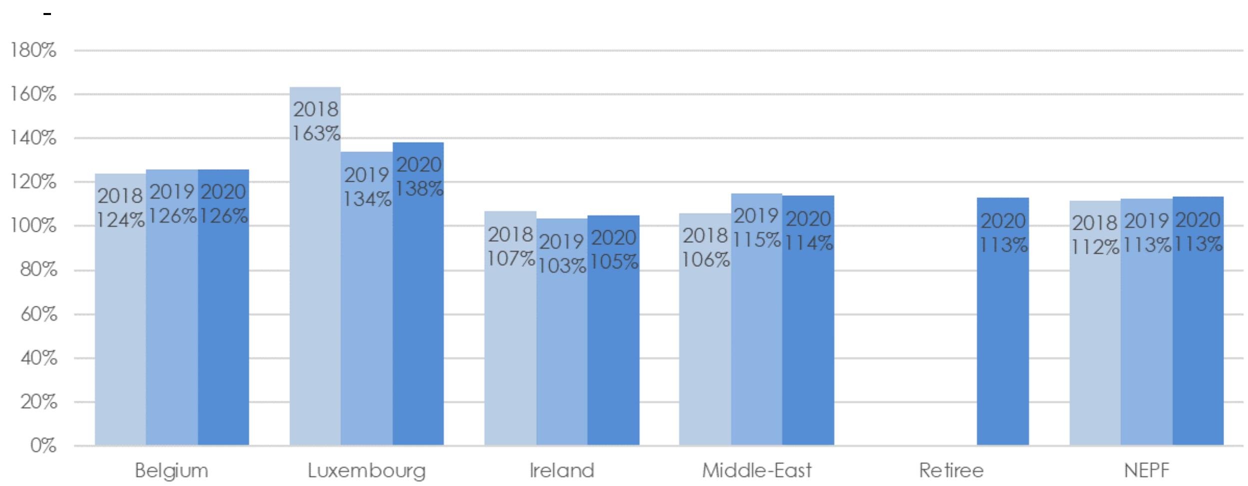
Evolution of the funding levels

During 2020, the Retiree section was added to the fund and while NEPF triggered changes to its main actuarial assumptions (discount rate and buffer) in 2019, only minor adjustments to the set of assumptions were conducted in 2020. This resulted in a little decrease of the funding on the short-term basis (1.7% to 132.4%). On the long-term basis, the overall funding of the Fund slightly improved thanks to performance on assets. 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:

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 was 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 was still negative year-to-date by 7-9%, offsetting part of the good results of previous years. More importantly, concerns about the current pandemic pushing the global economy into a recession with long lasting effects were there, accompanied by a lot of uncertainty. However, portfolio diversification proved efficient, limiting the negative impact on performance. Further, central bank intervention help the short-term recovery of the financial markets. By the end of 2020, the negative made place for positive and the assets of the EUR-sections showed a year to date increase of more than 4%.

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, but also benefited more from the recovery since.

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 plans 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 50.111and registered at the crossroads bank with number: 0410.355.926. Its registered address is:

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Rue de Birmingham, 221
1070-Anderlecht
Brussels
Belgium

Email: nepf@be.nestle.com
Please address any correspondence to the above address for the attention of the Pension Fund Manager.

Member contact details

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