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# Pensions News 2017

Keeping you updated on the Fund

November 2017



The latest full actuarial valuation took place as at 31 December 2015 and was completed in February of this year.

## Chairman's introduction

Welcome to the 2017 edition of Pensions News. As usual, this provides you with a summary of the annual accounts for the Nestlé UK Pension Fund (the Fund) for the year ending 31 December 2016, together with information about other developments within the Fund.

I start with some sad news. Tim Orme – a long-standing Trustee Director – passed away in October after a brave battle against illness. Tim was the Chair of our Investment Committee and a formidable champion of Nestlé members' interests. I had the honour of working closely with Tim and believe he was one of the very best pension scheme trustees in the country. Tim was a meticulous and conscientious leader, a passionate advocate of pensions, a pragmatic and level-headed decision-maker and a true investment heavyweight. He was also great company, with a razor sharp wit. The Board is considerably stronger due to his influence, which will be felt for many years to come. We wish Tim's family well in these difficult and sad times.

As the latest full actuarial valuation, as at 31 December 2015, is now complete, we're able to share the results with you (see page 5). The valuation is a financial 'health-check' of the Fund, which must take place every three years. It compares the total value of the Fund's assets with its liabilities. Any shortfall is known as a deficit and this needs to be rectified over a reasonable time period. Since the previous valuation in 2012, investment returns have been strong but liabilities have also risen in value. Consequently, the 2015 valuation revealed a continued deficit. However, I am delighted to report that, after a period of negotiations with Nestlé, in February this year, the Trustee Board agreed a new funding plan designed to remedy this deficit by 2022. This plan sees significant additional cash being paid into the Fund, both now and over the coming years.

There was considerable volatility in financial markets during 2016, driven by events such as the UK's decision to leave the EU and the US presidential election. Despite this, overall returns were extremely positive, with the Defined Benefit (DB) fund returning +22.7% over the year, and a number of funds in the Defined Contribution (DC) section performing well. See pages 9 and 10 for more details.

The completion of Nestlé's consultation with employees on future benefits has meant some changes to the benefits members build up from 1 August 2017. Along with a new DB benefit basis, major changes have been made to the investments offered by the DC sections of the Fund – DC Start and DC Core.

Earlier this year our Trustee Board said goodbye to George Tutill, our longest serving Member-Nominated Trustee Director. George stepped down from his role after over 30 years' service and we'd like to thank him for his long-term contribution. With his boundless enthusiasm, George was a steadfast and dedicated Trustee Director who brought a keen and caring eye to trustee business. To read more about the Trustee Board, see page 15.

**Steve Delo**  
Chairman of the Trustee Board

The most recent actuarial valuation found there has been an improvement in the funding position since the last valuation.

#### Jargon Buster

**Actuarial valuation:** An actuarial valuation compares the value of the Fund's assets against the value of its liabilities. These are normally carried out every three years.

**Defined Benefit:** Pension that is based typically on your service and your salary.

**Defined Contribution:** Contributions are paid into an individual account for each member, which is invested and then used to buy a retirement pension from an external provider.

## Valuation Update

Although the Actuary produces a funding update each year to let you know how the Fund is performing, a full actuarial valuation takes place at least once every three years.

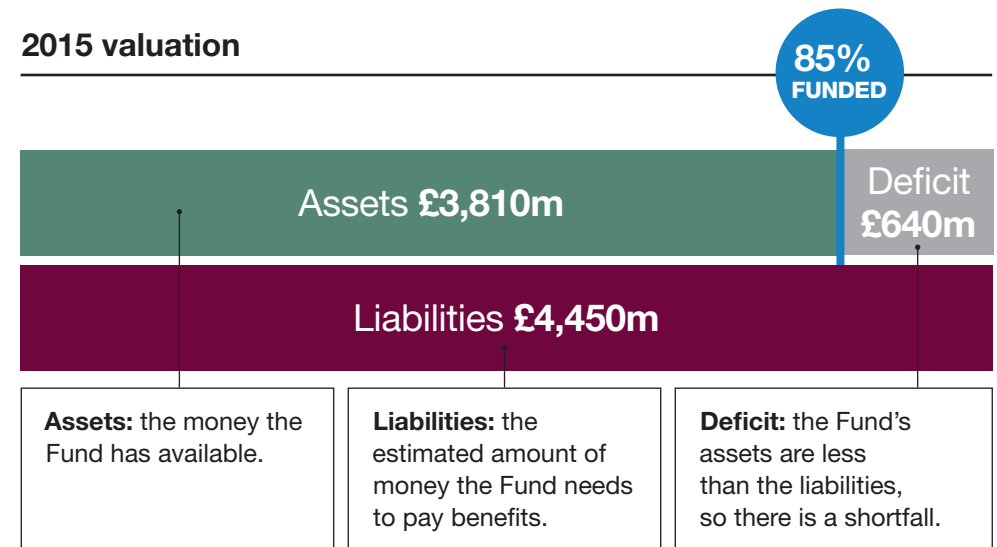
The valuation is a financial 'health-check' on the Defined Benefit (DB) sections of the Fund (previously Lanes 2 and 3, now DB Core and DB CorePlus), and compares the value of the Fund's assets (the money it has available), against its liabilities (the estimated amount of money it will need in the future to pay the benefits members have already earned). Comparing the assets with the liabilities gives a funding level, which indicates if the Fund has a surplus (more money than it needs to pay members' benefits), or a deficit (less money than it needs to pay members' benefits).

The most recent valuation of the Fund, as at 31 December 2015, is now complete and we share the results of this below. We are also providing you with a funding update as at 31 December 2016.

### How is the Fund doing?

The most recent valuation found that the Fund was 85% funded, with a deficit of £640 million.

#### 2015 valuation



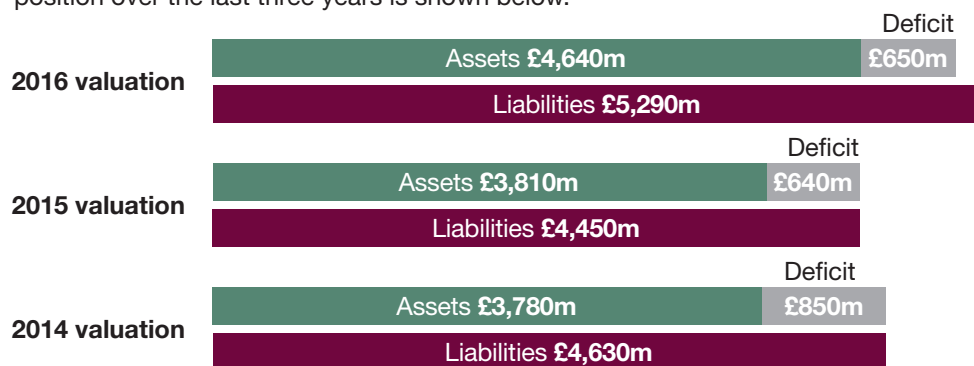
## How has the funding level changed?

Deficit in 2007 £305m	Deficit in 2009 £707m	Deficit in 2012 £790m
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There has been an improvement in the funding position since the last valuation. This has been due to investment performance, an increase in the real yields on gilts (decreasing the value placed on the liabilities), and the additional contributions made by Nestlé as part of the recovery plan put in place following the previous valuation. As it stands there's still volatility in investment performance (affecting assets) and in gilt yields (affecting liabilities). We'll update you on the funding position in next year's newsletter.

## What has happened to the funding position since December 2015?

An actuarial update was also carried out at 31 December 2016, and the funding position over the last three years is shown below.



The asset value used to calculate the funding level only includes monies in the Defined Benefit part of the Fund. It does not include any monies in Lane 1 or the Starter Lane, or Additional Voluntary Contributions (AVCs) with external providers. This is why the asset value at 31 December 2015 above is different to the value of the Fund reported on page 8.

## How are the liabilities calculated?

The Actuary calculates the value of the liabilities using assumptions from a Statement of Funding Principles drawn up by the Trustee and agreed with Nestlé.

## What is the plan to reduce the deficit?

Following the previous valuation, the Trustee and Nestlé agreed a recovery plan to eliminate the deficit, which is currently due to run until 2022. Under the recovery plan, Nestlé will pay £89m in 2017, £86m each year from 2018 to 2022, and then a final payment of £63m will be made by 31 December 2022. The Trustee and Nestlé will review the deficit and the recovery plan after the next full valuation.

## Will I be asked to pay more?

Member contribution rates are not affected - Nestlé alone is responsible for clearing the deficit. Please note, this is different to the contribution sharing mechanism, where member contribution rates could change, depending on the cost of providing DB benefits. This cost is calculated every three years as part of the Fund's formal valuation process.

## What would happen if the Fund had to close?

As part of the valuation, the Actuary also estimates how much an insurance company might charge to take on the responsibility for paying members' benefits. This would happen if Nestlé were to become insolvent and no further contributions were paid. All pension funds are required to carry out this calculation. If the Fund had discontinued and transferred to an insurance company at 31 December 2015, the estimated deficit would have been £2,790m, compared with £2,600m as at the previous valuation. However, please be aware that this is something that the Trustee has to tell you, and we have no intention of closing the Fund.

In practice, if Nestlé was unable to pay further contributions to the Fund, for example in the case of an insolvency, we expect that further funds would become available under the £1.1 billion guarantee provided by Nestlé's parent company, Nestlé SA. The Pension Protection Fund (PPF) also exists to provide added security to pension scheme members should a company become insolvent. If a scheme enters the PPF, the amount members receive may be less than the pension benefits built up for them in the scheme. For more information about the PPF, see [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)

## What else should I know?

Regulations require us to confirm that Nestlé has not taken any money out of the Fund in the last 12 months. We are happy to confirm this. We are also happy to confirm that the Fund has not had any modifications, directions or schedule of contributions imposed on it by The Pensions Regulator. Pension benefits are calculated in accordance with the Fund's Trust Deed and Rules and are paid to members out of the Fund. We do not hold separate individual 'accounts' for members, except for members' Defined Contribution Additional Voluntary Contribution funds and money held in DC Core or DC Start.

## Income and expenditure

Here's a summary of the Fund's Accounts for the year ending 31 December 2016, compared with the previous year.

### Money coming into the Fund

	2016 (£000s)	2015 (£000s)
Employer contributions*	£143,350	£102,577
Employee contributions	£16,754	£16,473
Transfers in	£713	£1,769
Investment and other income	£43,968	£39,189
Change in market value of investments	£848,273	£51,402
<b>Total</b>	<b>£1,053,058</b>	<b>£211,410</b>

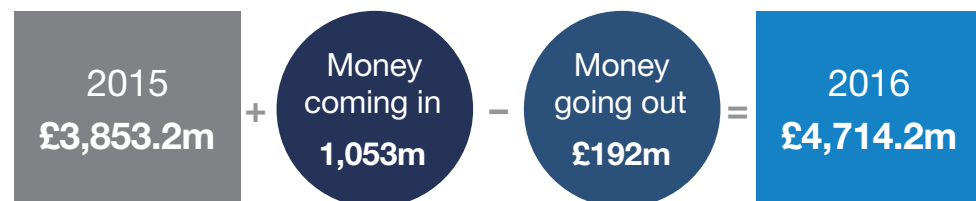
\* The employer contributions include deficit funding contributions of £104.5m in 2016 and £64.5m in 2015.

### Money going out of the Fund

	2016 (£000s)	2015 (£000s)
Pensions paid including lump sum benefits	£168,621	£165,527
Lump sum death benefits	£873	£1,090
Payments to leavers	£11,096	£8,116
Administration expenses including PPF levy**	£6,389	£5,961
Investment management expenses	£4,982	£3,834
<b>Total</b>	<b>£191,961</b>	<b>£184,528</b>

\*\* PPF (Pension Protection Fund) levy: £1.7m in 2016 compared with £1.5m in 2015.

## Value of the Fund



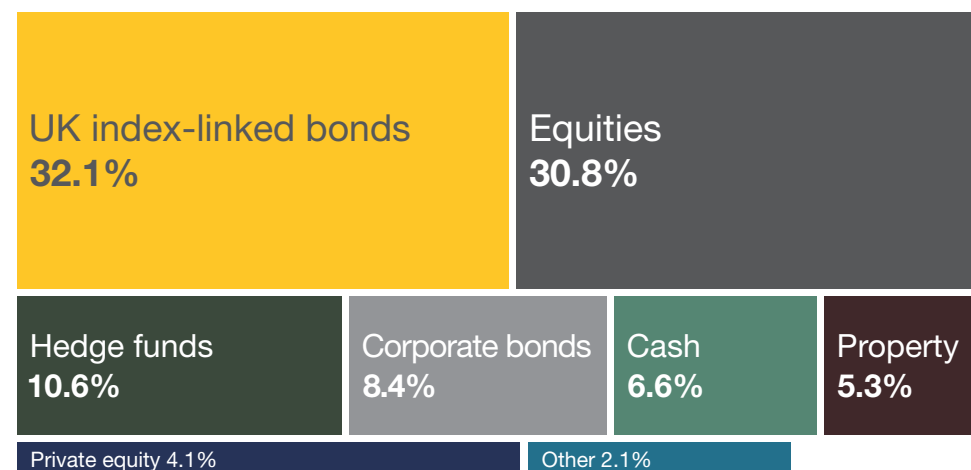
## DB investments

From August 2010 to July 2017, the DB sections of the Fund were Lane 2 and Lane 3. This is a summary of the investment performance of those sections during 2016.

During 2016, there was considerable volatility in markets driven by events such as the UK's decision to leave the EU and the US presidential election. Despite these factors, overall returns were extremely positive with the DB fund returning +22.7% over the year.

Equity market returns varied around the world. Some regions performed better than others, but the overall return on equities for the Fund was 25.1%. Property continued to perform satisfactorily and private equity had a good year, as did corporate bonds. Gilts were extremely strong and returned +32.4% over the year.

The Fund's assets (excluding monies in Lane 1 and the Starter Lane) were invested as follows at 31 December 2016:



## Investment strategy

It had previously been agreed with Nestlé that asset allocation should be 70% growth and 30% matching assets. Growth assets are generally more volatile than matching assets and during the year the Trustees and Nestlé agreed to de-risk the investments over time. The agreed allocation for the future will be 15% Growth, 55% Matching Plus and 30% Matching by December 2032. The Trustees and Nestlé have also agreed a hedging programme to manage interest rate and inflation risk.



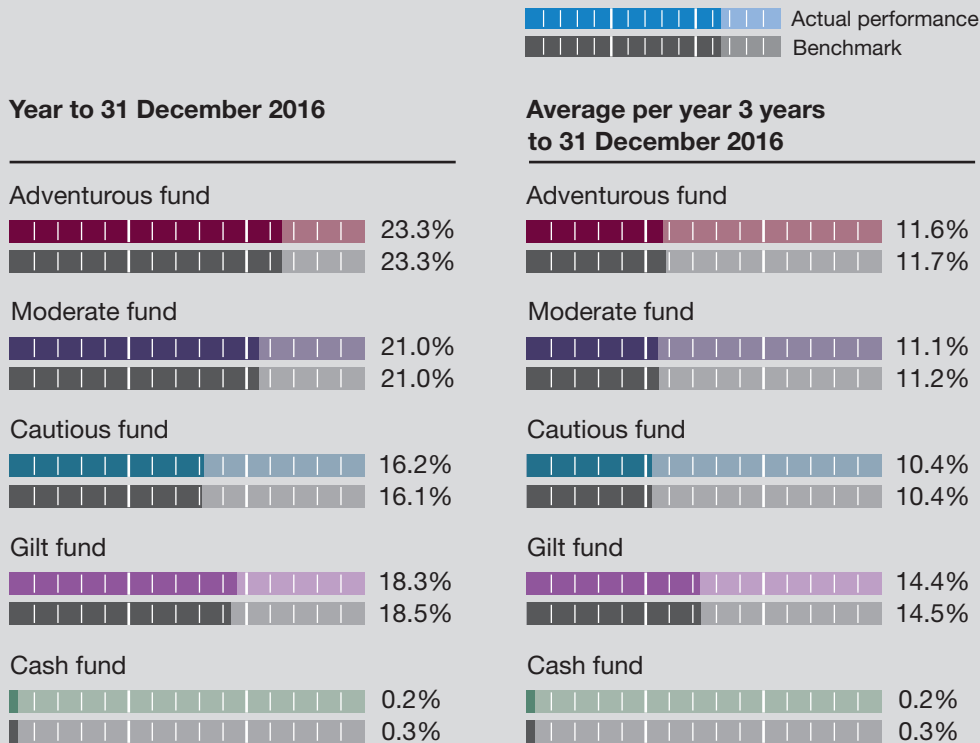
# DC investments

## DC investment performance

Lane 1 and the Starter Lane were the Defined Contribution sections of the Fund, which were introduced in 2010 and 2013 for employees and replaced by DC Core and DC Start with effect from August 2017.

If you were invested in one of the Pathway options, you may have been invested in one or more of the funds below. Starter Lane investments were in the Moderate Pathway, made up of the Moderate fund, the Cash fund and the Gilt fund. These investment options were replaced with a new range of funds, effective August 2017.

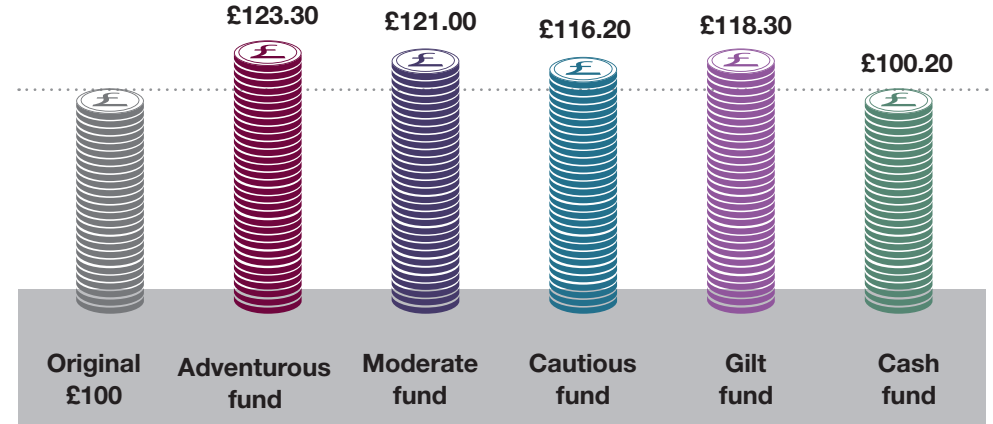
The chart below shows the performance of the Lane 1 and Starter Lane funds for the year ended 31 December 2016, compared with the benchmark.



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

## DC Investment performance – what this means for you

Here's how much you would have had at the end of the year if you had invested £100 in each of the five funds at the start of the year:



Remember when saving for your retirement, long-term performance (i.e. over several years) is more important than short-term performance (e.g. over 12 months) and that the value of funds can go both up and down.

All the figures shown are net of the fees i.e. after the investment management charges have been deducted.

**Reminder** – If you're an active or deferred member in DC Core, you have the opportunity to change your investment choices every quarter. The next quarter is between November and January, with the change taking effect from February 2018. If you'd like to do this you would need to tell us between these months, by completing and submitting an Investment Choices Form. Any forms received after this would take effect during the next quarter. For more information about this and the new investment options, please visit the DC investments section of our website (see back page for details).

## Membership

The illustrations below show the membership of the Fund at 31 December 2016 compared with the membership at 31 December 2015.

### Contributing members



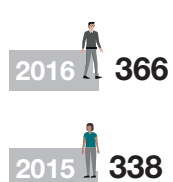
### Deferred members



### Pensioner members



### Life assurance only members



**Reminder** – If you're an active member and you want to switch to DC Core, you have the opportunity to do so every quarter. The next quarter is between November and January, with the change taking effect from February 2018. If you'd like to do this you would need to tell us between these months, by completing and submitting a DC Core Option Form. Any forms received after this would take effect during the next quarter. Please be aware that if you do switch to DC Core you will be unable to switch back. More information is available on our website (see back page for details).

## Pension increases (for pensioners and deferred pensioners)

These increases do not apply to pensions purchased with accounts built up in Lane 1 or the Starter Lane.

### Increase for pensioners

For pension earned up to 5 April 2006:  
**2.6%**

For pension earned from 6 April 2006:  
**2.5%**

Based on Retail Prices Index (RPI) movement to 31 January 2017 of 2.6%.

### Increase for Purina pensioners\*

For pension earned up to 5 April 2006:  
**2.5%**

For pension earned from 6 April 2006:  
**2.5%**

Based on RPI movement to 31 December 2016 of 2.5%.

\* Pensioner members of the former Purina UK Pension Plan.

### Increase for deferred members

For pension earned up to 5 April 2009:  
**1.8%**

For pension earned from 6 April 2009:  
**1.8%**

Based on Consumer Prices Index (CPI) movement to 31 January 2017 of 1.8%.

The Directors are responsible for running the Fund in the best interests of its members.

## The Trustee Board

The Fund is managed by a Trustee Company, Nestlé UK Pension Trust Ltd. There are ten Trustee Directors on the Trustee Board; five appointed by Nestlé UK and five elected by active and pensioner members.

The Directors are responsible for running the Fund in the best interests of its members. They meet four times a year, although some also attend specialist sub-committees, which meet quarterly in advance of the main Board meetings.

### Tim Orme



As mentioned in Steve Delo's introduction, we were saddened by the news that Tim Orme recently passed away. Tim had been on the Trustee Board since 2010 and was the long-standing Chairman of the Investment Committee. He was the intellectual driving force of our investment governance and an outstanding Trustee Director. We will miss his friendship and significant contribution at Board meetings.

## Changes to the Trustee Board

There have been some changes to the Board, since our last edition of Pensions News.

### George Tutill

In February 2017, George Tutill, our longest serving Member-Nominated Trustee Director, stepped down from his role. George had been on the Trustee Board for over 30 years, first as an active member before his retirement in 2003, and then as a pensioner since 2004. We wish George all the best.

Following the ballot for last year's MND election, David Baxter, pensioner, was duly elected to the Trustee Board for a five-year term of office, replacing George (see page 17). Congratulations to David and many thanks to all the candidates who took part in the process.



## Changes to the Trustee Board (continued)

### Jean-François Vaccaro

Trustee Board member Jean-François Vaccaro resigned on 1 August 2016. Jean-François worked for Nestlé's specialist pension advisory team based in Switzerland. He joined Nestlé in 2007 and had been a member of the Trustee Board since 2014. We wish him well.

John Chilman replaced Jean-François Vaccaro on the Trustee Board. John is an independent trustee and Global Head of Pensions for National Grid, as well as Chairman of the Railways Pension Scheme (see page 18).



## Meet Your Trustee Directors

Here you can read all about your current Trustee Directors.



### Barbara Firth – Member-Nominated Trustee Director Pensioner Member

Barbara worked for Nestlé and Rowntree in York for over 28 years. She was secretary to the Managing Director of the Confectionery Division, and briefly ran the Joseph Rowntree Library before moving into the Human Resources function. She retired from Nestlé to set up a boutique Bed & Breakfast with her husband. Barbara joined the Trustee Board in 2014 when she wound up their business.



### David Baxter – Member-Nominated Trustee Director Pensioner Member

David worked for Nestlé for over 30 years and was a Pension Members Representative at Gatwick and Croydon for over 5 years. A certified engineer, he was the Nestlé representative to European Coffee Associations (including Committee Chairman), and Global Head of Green Coffee Quality.



### Irene Donaldson – Nestlé-appointed Trustee Director Employee Member

Irene is a Learning & Development Specialist based in Gatwick. She has worked for Nestlé UK Ltd for 31 years, in various roles in Marketing, Sales and Human Resources. Irene joined the Trustee Board as a Nestlé-appointed Trustee Director in February 2016, bringing her experience of issue analysis, decision making and communications, all key to the complex role of the Trustee in today's economic climate.

## Meet Your Trustee Directors (continued)



**John Chilman – Nestlé-appointed Trustee Director  
Independent Trustee**

John is an experienced pensions and reward professional who recently joined the Trustee Board in August 2016. He is currently the Group Pensions Director for FirstGroup plc and Chairman of the Railways Pension Scheme, as well as having a number of trustee appointments in North America. He is Chairman of the Defined Contribution Committee.



**Sean Conricode – Member-Nominated Trustee Director  
Employee Member**

Sean has worked for Nestlé in York in a variety of technical and production roles for 39 years and is now Nestlé's Product Specialist for Chocolate in the Innovation & Renovation team. He has been a Member-Nominated Trustee Director since 2008 and was returned for a second term of office in 2015.



**Malcolm Burridge – Nestlé-appointed Trustee Director  
Employee Member**

Malcolm is the Finance Manager for Nestlé Professional UK & Ireland based in Gatwick. He has worked for Nestlé in a variety of Finance roles for over 15 years, including Group Finance, Supply Chain Finance and the LGO ('Local Globe Organisation'). He joined the Trustee Board as a Nestlé-appointed Trustee Director in February 2016 and is excited to work on the big challenges workplace pensions face in the UK. Malcolm is Chairman of the Governance & Compliance Committee.



**Steve Delo – Nestlé-appointed Trustee Director  
Independent Trustee**

Steve is Chief Executive of PAN Governance LLP and former President of the Pensions Management Institute. The PAN Group provides trusteeship and governance services to all types of approved pension schemes. Prior to joining PAN, he held senior roles in pension consulting and asset management. Steve joined the Trustee Board in May 2015 and was appointed Chairman in February 2016. He is also Chairman of the Valuation Committee.



**Marcus Barry – Member-Nominated Trustee Director  
Employee Member**

Marcus is a Business Manager for 1st Choice Sales based in Gatwick and has worked for Nestlé for nearly 30 years. Prior to joining Nestlé, he worked for two years within the occupational pensions industry. Marcus joined the Trustee Board as a Member-Nominated Trustee Director in 2015.



**Steve Robinson – Member-Nominated Trustee Director  
Employee Member**

Steve has worked for Nestlé in York for over 23 years in a variety of engineering and production roles. He joined the Trustee Board as a Member-Nominated Trustee Director in 2014. Prior to that he spent two years as a Member Representative on the Fund's forum for employee members.