Fonds de Pensions Nestlé

Annual Report 2019

Contents

In case of doubt or differences of interpretation, the French version shall prevail over the English and the German text.

Contact

Fonds de Pensions Nestlé
P.O. Box 353
Avenue Nestlé 55
1800 Vevey (Switzerland)
Phone: +41 21 924 64 00
E-mail: fonds-de-pensions@nestle.com
www.fpn.ch

Impressum

Designed by: Fonds de Pensions Nestlé
& NeidhartSchön AG, Zurich
Design: Peter Scholl, Vevey
Photographs: Getty Images

Foreword

Message from the Chairman of the Board of Trustees

In 2019, the financial markets reached record highs, based on the market-friendly monetary policies pursued by the central banks, with successive cuts to their key interest rate and the resumption of asset purchase programmes, combined with the easing of tension in the trade dispute between China and the US. All asset classes, in particularly equities, benefited from this and recorded a very positive performance.

Given the highly favorable macro-economic and financial environment, the financial year 2019 was excellent for the Nestlé Pension Fund (hereinafter the "Fund"), which achieved a performance of +14%. This strengthened the Fund's financial situation, with the funding ratio increasing from 105.8% on December 31, 2018, to 114.4% at the end of last year.

This result is obviously good news. However, we have to exercise maximum caution in the management of the Fund, especially given the low expectations of financial performance over the next few years which was confirmed by the Asset Liability Management (ALM) study that we conducted in 2019. This analysis, which is covered in the Focus section of this report (see pages 3 and 4), led the Board of Trustees to adopt a new investment strategy during its session on November 14, 2019, which is more in line with the Fund's limited risk tolerance.

Acknowledging that 2019 was an exceptional year in terms of financial performance, and in line with this principle of precaution, the Board of Trustees also decided to allocate CHF 175 million to build up the existing provision for a possible future reduction in the technical interest rate of the Fund. It also approved the allocation of an additional interest of 1.75% on the retirement savings capital of all the active members as of December 31, taking the overall interest payment to 2.75% for 2019.

In addition, our external expert on occupational pensions (Jean-Marc Wanner) carried out an actuarial valuation for the Fund in 2019. His analysis confirmed that the Fund is able to meet all its pension liabilities and demonstrated that all our calculations use appropriate assumptions. In doing so, he confirmed the solidity of the Fund's financing and its financial situation. Following the proposal from the Fund's management, Jean-Marc Wanner also sounded a note of caution by recommending an extra provision to cover the cost of a possible future reduction in the technical interest rate from 2.25% to 2%. You can find further information on this subject on pages 10 and 11 of this report.

When writing this review of 2019, it was impossible to ignore the severe impact of the COVID-19 pandemic and how it has affected us. It is, of course, far too early to understand fully the long-term effect that this crisis will have on our society in general, as well as its impact on the economy and on our Fund in particular.

The Fund invests its assets in the financial markets, and is clearly affected by these repercussions despite the diversified nature of its portfolio. The Board of Trustees, its Investment Committee and its management are confident that the Fund is well-positioned to cope with this situation, with its (very) long-term outlook thanks to its status as an institutional investor. The Fund will therefore stick to its investment strategy and will implement it consistently, especially in this extremely volatile and unpredictable period. Even though this crisis is fundamentally different from any we have faced in the past, history has shown that the Fund has ultimately managed to overcome such challenges without hitting any major hurdles.

Peter Vogt
Chairman of the Board of Trustees

Focus – Asset Liability Management study

What is an Asset Liability Management study and what is its purpose?

The main objective of a pension institution and therefore the Fund is to guarantee its long-term financial stability to guarantee its insured members' pensions. As a result, the Fund's assets are invested based on an investment strategy that is designed to ensure optimal asset allocation between different asset classes to generate yields over the long term to finance pension liabilities, while taking into account the Fund's risk tolerance. This is sometimes also referred to as an asset allocation strategy (AAS) which is reflected in a strategic benchmark.

The second paragraph of Article 50 of the Ordinance on Occupational Old Age, Survivors' and Disability Benefit Plans (OPP2) provides information regarding the parameters that must be taken into account to evaluate the ability of a Fund to take risks :

« When investing its assets, the pension institution must provide assurance that it can meet its objective of pension provision. This assurance must be evaluated specifically taking into account all the assets and liabilities, as well as the structure and the foreseeable changes to the number of insured members. ».

In order to comply with these rules, an Asset Liability Management study is carried out on a regular basis (every 3–5 years) to provide the governing body, the Board of Trustees, with the necessary information to decide upon the appropriate investment strategy, taking into account the nature of its pension liabilities.

The two points to be considered when defining the strategy are as follows :

1. Alignment of the expected profitability of this investment strategy with the need for yield in order to ensure long-term financing of the liabilities for the active insured members as well as for the pensioners, survivors and those with a disability; and
2. The Fund's risk tolerance which is determined by its capacity to recover from financial shocks.

Result of the ALM study for the Fund

In 2019, the Fund instructed PPCmetrics SA, its investment consultant, to carry out an Asset Liability Management (ALM) study. Based on this analysis, the Board of Trustees approved a revised investment strategy that was recommended to it by its Investment Committee and its management.

Asset Allocation Strategy (AAS)

Liquidities	2%
Bonds	41%
Swiss	16%
Foreign	25%
Listed shares	27%
Swiss	4%
Foreign	23%
Real estate	23%
Swiss	16%
International	7%
Private equities	7%

The main differences between the new strategy and the old one are as follows:

- A 6% reduction in the allocation of listed shares in favor of bonds;
- Optimization of the distribution of the bond allocation with a significant increase of CHF denominated bonds;
- Reduced exposure to foreign currencies.

Rationale with regard to the choice of the new investment strategy

The two main reasons behind the adoption of this new investment strategy are as follows :

1. The Fund's **expected future profitability** of 2.25% is close enough to the expected future **yield requirement** of 2.4% to avoid causing material damage to its financial health;
2. The risk profile is reduced when compared with the old strategy, and is better aligned with the Fund's risk tolerance.

In order to better understand the key concepts of this strategy, we have provided the following definitions :

Expected profitability (long-term measure) :
The expected profitability is defined as the most probable annualized yield for a given investment strategy in the long term (in general 10 years). It is highly dependent on the yield assumptions applied for the different asset classes and therefore is not guaranteed.

On the basis of the assumptions of PPCmetrics SA, the expected profitability of the Fund's new investment strategy is 2.25%.

Yield requirement (short/medium-term measure) :
The yield requirement is defined as the minimum yield required in order to finance the Fund's pension liabilities. Therefore, it is the yield that enables a constant funding ratio to be maintained.

The yield requirement is calculated every year based on the following components :

- Payment of interest on the active insured members' savings accounts (for the Fund: assumption of 1% corresponding with the LPP minimum rate applicable when the study was carried out) ; and
- Payment of interest on pension reserves for pensioners, which is determined by the technical interest rate of 2.25% applied by the Fund since 2018 ; and
- Financing of the provision to support longevity, amounting to 0.6% per year of the pension reserves of the Fund's pensioners.

The Fund's yield requirement to maintain its funding ratio, taking account of the parameters indicated above, is 2.4%.

Capacity to recover from financial shocks :
This reflects a pension institution's capacity to introduce efficient measures to recover in the event of a shortfall (if the funding ratio falls below 100%). The more quickly the funding ratio can be brought back above the 100% mark with these measures, the higher the structural risk tolerance of the fund.

The measures taken to improve the financial health of the Fund can only impact the active insured members, as the benefits paid to the pensioners are legally guaranteed. An initial measure would generally be to stop paying interest on the pension reserve savings of active insured members. A second measure could involve additional contributions from the active insured members and their employer. The capacity to recover from financial shocks therefore depends primarily on the demographic structure of a fund, in particular the proportion of fund's assets for pensioners compared with that for active insured members.

In the specific case of the Fund, it should be noted that the reserves for pensioners represent slightly more than 60% of the Fund's total pension liabilities, compared with around 40% for active insured members - even though there are fewer pensioners than active insured members, their pension reserves are much higher. Consequently, the Fund's risk tolerance is limited, and that should be reflected in its capacity to take investment risks (exposure to equities, for example). This important aspect needs be taken into account as part of the ALM study.

Conclusion

In November 2019, thanks to this Asset Liability Management study, the Board of Trustees adopted the new investment strategy featured in the table on the previous page. This strategy should guarantee its financial stability in the long term while being more aligned with its limited ability to take risks.

The Investment Committee approved an implementation plan for this new investment strategy, which required three new mandates to be opened, two others to be closed and the instruction for 26 buy and sell orders for a total of around CHF 2.7 billion. This was rolled out optimally and in accordance with the plan decided upon by the Investment Committee, with good management of costs and without any negative impact on the Fund's performance.

Organisation (at 31.12.2019)

Board of Trustees

Employer representatives

Peter Vogt, Chairman of the Board, Vevey
Tania Genoud, Société des Produits Nestlé SA, Vevey
Sonia Studer, Nestlé Suisse SA, Vevey
Gian Paolo Chiaia, Nestlé Suisse SA, Vevey
Mathieu Rieder, Société des Produits Nestlé SA, Vevey
Daniel Weston, Nestlé Nespresso SA, Lausanne

Member representatives

Marcel Baumgartner, Société des Produits Nestlé SA, Vevey
Frank Koch, Nestlé Suisse, Konolfingen
Oriane Seydoux, Société des Produits Nestlé SA, Vevey
Beat Hess, Nestlé Suisse SA, Vevey
Dominique Rovero, Nestlé Nespresso SA, Avenches
Marc-André Zingre, Société des Produits Nestlé SA, Orbe

Pensioners' representative in an advisory capacity

Martin Suter, Montreux

Investment Committee

Employer representatives

Mathieu Rieder, Chairman of the Committee,
Société des Produits Nestlé SA, Vevey
Daniel Weston, Nestlé Nespresso SA, Lausanne

Member representatives

Oriane Seydoux, Société des Produits Nestlé SA, Vevey
Beat Hess, Nestlé Suisse SA, Vevey

Management

Christophe Sarrasin, Director
Jean-Pascal Coutaz, Administration
Christian Rey, Actuarial science
Christian von Roten, Investments

Certified pension actuary

Jean-Marc Wanner, AON Suisse SA, Nyon

Investment Advisor

PPCmetrics SA, Nyon

Auditors

KPMG SA, Lausanne

Key figures

		31.12.2019	31.12.2018
Funding ratio		114.4%	105.8%
Total of available assets	In millions of CHF	7675.5	6942.2
Liabilities	In millions of CHF	6712.0	6559.2
– Pension reserve for pensioners	In millions of CHF	4011.8	3971.8
– Pension reserve for active members	In millions of CHF	2436.6	2522.3
– Technical provisions	In millions of CHF	263.6	65.1
Investment fluctuation reserve	In millions of CHF	963.5	383.0
Investments performance		14.0%	(4.0%)
Asset management costs		0.47%	0.55%
Assets allocation			
– Cash		0.9%	2.0%
– Equities		29.3%	32.6%
– Bonds		41.5%	36.5%
– Real estate		23.2%	22.8%
– Alternative investments		5.1%	6.0%
Interest payments on retirement savings capital		2.75%	1.0%
Technical interest rate		2.25%	2.25%
Mortality tables		LPP 2015	LPP 2015
Total headcount		14734	15758
– Active members		8847	9967
– Pensioners		5887	5791

Overview of the financial year

Financial situation of the Fund

The Fund's performance was +14.0 % for the financial year 2019.

Although the majority of asset classes contributed toward this excellent result, special mention should be given to equities as they achieved record value levels in 2019, in particular due to the general reduction of interest rates. The Fund's performance in 2019 exceeded the average performance of Swiss pension institutions, which – according to the Credit Suisse and UBS Swiss pension fund indices – sits at around +11 % (page 18). It is also slightly above the strategic benchmark (+13.6 %), despite the fact that the latter does not take into account management fees.

As regards the funding ratio of the Fund – the ratio between its assets and its liabilities – it benefited from the excellent performance in 2019 to reach 114.4 % at December 31, 2019. As a reminder, the funding ratio is one of the most commonly used statistical elements to measure the financial health of a pension institution.

It should be noted that the funding ratio of 114.4 % also takes account of the different provisions that were established during the year, and in particular the CHF 175 million which was allocated on December 31, 2019, to fund the potential future reduction of the technical interest rate (page 22).

Decisions of the Board of Trustees

The Board of Trustees took the following decisions in 2019:

- To fund the provision for the future reduction of the technical interest rate;
- To allocate additional interest of 1.75 % on the retirement savings capital on December 31, 2019, and consequently to pay interest of 2.75 % on the retirement savings capital in 2019;
- To fix the interest rate on retirement savings capital at 1 % for 2020, thus following the decision of the Federal Council with regard to the minimum LPP interest rate;
- To not increase the pensions on January 1, 2020;
- Following the ALM study, to modify Appendix 1 of the Investment Regulations to formally take account of the adaptation of the strategic allocation of assets (page 19).

Finally, the Board of Trustees has taken note of :

- The sale of Nestlé Skin Health on September 30, 2019, which caused a partial liquidation of the Fund;
- The actuarial valuation report from December 31, 2018, written by Fund expert Jean-Marc Wanner of AON Suisse SA.

Technical valuation on December 31, 2018

According to the law and in compliance with the rules of conduct and the directives from the Swiss Chamber of Pension Fund Experts (CSEP) as well as those of the Supervisory Commission for Occupational Pensions (CHS), the occupational pension expert must periodically conduct an evaluation of the pension institution.

On October 31, 2019, Jean-Marc Wanner of AON Suisse SA, the Fund's occupational pension expert, carried out a technical evaluation during which he examined the Fund's financial situation and its financing up to December 31, 2018. He confirmed the following:

- The technical bases for calculations, namely the 2015 LLP as well as the technical interest rate (2.25 %), were appropriate;

- The Fund was able to guarantee its regulatory commitments as at December 31, 2018;
- The measures taken to cover actuarial risks were sufficient;
- The occupational benefits institution's actuarial regulations concerning benefits and funding comply with legal requirements.

The result of his analysis also showed that the Fund did not have any sources of structural deficit and that the expected return from its investments covered the required yield.

In line with the management's proposition and taking into account the investment strategy and the structure of the Fund, he also recommended adopting a prudent strategy and the funding of a provision for a possible future decrease in the technical interest rate from 2.25% to 2.0%.

Sale of Nestlé Skin Health

Nestlé Skin Health was sold on September 30, 2019, resulting in the departure of 382 insured members. The total value of their leaving benefits was transferred to their new pension institution. According to the statutory and regulatory provisions, this situation requires a partial liquidation of the Fund. The main objective of a partial liquiditation is to guarantee equal treatment of both the active members who remain in the Fund and those who have left, all the while taking into consideration the long-term interests of the Fund. Given the collective transfer of the insured members concerned to a new pension institution, there is a proportional right to the technical reserves and the downward risk provision of the Fund that will be transferred collectively to the new pension institution.

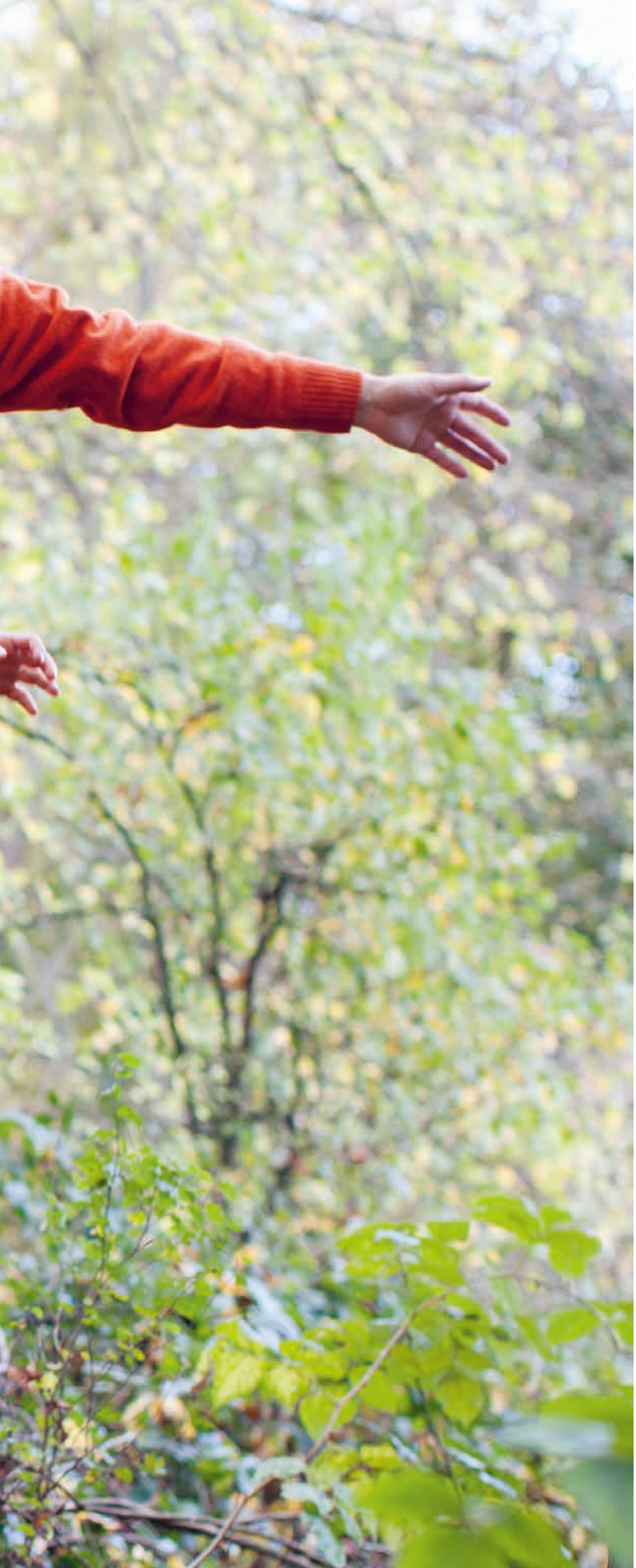
Balance sheet

In millions of CHF	2019	2018
Assets		
Investments	7708.6	6994.3
Cash and short-term investments	70.8	140.6
Equities	2258.8	2279.5
Private equities	373.5	401.1
Bonds	3200.8	2555.6
Swiss real estate	1277.8	1140.5
International real estate	507.7	456.2
Hedge funds	19.2	20.8
Accrued income	110.9	75.7
Assets and receivables	80.1	40.6
Employer participation	30.6	19.7
Prepayments and accrued income	0.2	15.4
Assets: grand total	**7819.5**	**7070.0**
Liabilities		
Accrued expenses	88.1	75.7
Vested benefits and pensions	80.2	67.4
Other payables	6.9	6.1
Accrued expenses and deferred income	1.0	2.2
Employers' contributions reserve	55.9	52.1
Pension reserves and technical provision	6712.0	6559.2
Pension reserve for active members	2436.6	2522.3
Pension reserve for pensioners	4011.8	3971.8
Provision for increased life expectancy	48.2	23.8
Provision for death and disability risks	40.4	41.3
Provision for a future reduction in the technical interest rate	175.0	0.0
Investment fluctuation reserve	963.5	383.0
Disposable surplus	0.0	0.0
Liabilities: grand total	**7819.5**	**7070.0**

Income statement

In millions of CHF

	2019	2018
Ordinary and other contributions	362.3	378.5
Employers' contributions	152.7	151.5
Supplementary employer contributions	29.8	59.9
Members' contributions	89.1	90.2
Single premiums and voluntary purchase	90.6	76.8
Subsidies from Guarantee Fund	0.1	0.1
Vested benefits from other institutions	107.1	205.5
Vested benefits rolled over from other institutions	32.5	32.8
Refunds of early withdrawals for home ownership and divorce	5.2	5.5
Reserve transfers from other Nestlé Funds + Swiss	8.2	4.1
Transfer from the Fonds de Pensions Complémentaire Nestlé (retirees)	61.2	163.1
Contributions and vested benefits from other institutions	**469.4**	**584.0**
Statutory benefits paid out	(323.6)	(335.7)
Statutory pensions	(306.0)	(300.6)
Lump sums and one-time allowances	(17.6)	(35.1)
Non-statutory benefits	(0.2)	(0.2)
Voluntary pensions – non-statutory	(0.2)	(0.2)
Vested benefits and early withdrawals	(366.8)	(239.6)
Vested benefits rolled over to other institutions	(333.2)	(207.9)
Benefits paid following partial liquidation	(4.9)	0.0
Early withdrawals for home ownership and divorce	(14.1)	(16.9)
Return to the Fonds de Pensions Complémentaire Nestlé	(14.6)	(14.8)
Expenses relating to benefits and early withdrawals	**(690.6)**	**(575.5)**
Dissolution (constitution) of pension reserves, technical provisions and contributions reserves	(156.5)	(161.0)
Pension reserve for active members	147.8	47.8
Provision reserve for pensioners	(40.1)	(494.9)
Provision for increased life expectancy	(24.3)	(122.0)
Provision for death and disability risks	0.9	8.1
Provision for a future reduction in the technical interest rate	(175.0)	(173.7)
Remuneration of savings capital	(62.0)	(24.2)
Employers contributions reserve	(3.8)	(6.5)
Insurance expenses – contributions to guarantee fund	(0.9)	(0.8)
Net income from insurance activity	**(378.6)**	**(153.3)**
Net investment income	962.4	(290.9)
Gross return on investments	998.5	(251.0)
Asset management fees	(36.1)	(39.9)
Other income	0.1	0.7
Other expenses	(0.6)	(1.7)
General administration costs	(2.8)	(3.0)
Balance of income (expenses) before additions to (releases from) investment fluctuation reserve	**580.5**	**(448.2)**
Dissolution / (constitution) of investment fluctuation reserve	(580.5)	448.2
Balance of income (losses)	**0**	**0**



Investments

A look back at 2019

In 2019, the financial markets achieved record levels, supported primarily by a number of large central banks that initiated a cycle of interest rate cuts. With the slowdown of the economy, the US Federal Reserve and the European Central Bank resumed the monetary policies that they had ended a few months previously, lowering interest rates in the short term (which they control directly to a certain extent) and in the long term (through asset purchase programs).

However, apart than this substantial market support provided by the central banks, good news was few and far between for investors in 2019. Manufacturing industry slowed down amid uncertainties associated with trade tensions, which had a negative impact on economic growth in many countries. Germany only just escaped an economic recession, thanks to household consumption and the services sector. The negative impact of the trade war between China and the US eased to some extent by the hopes stemming from "phase one" negotiations (finally concluded in January 2020). 2019 was also shaped by the uncertainties of Brexit, which saw deadlines postponed to March and October, with the UK finally leaving the EU in January 2020. However, it should be noted that for both Brexit and the trade war, the agreements concluded so far only resolve a small fraction of the disputes between the respective parties.

Given these uncertainties, some investors adopted a defensive position, which also contributed to the reduction in interest rates observed in many countries for the majority of 2019. For the first time ever, the interest rate on 10-year federal bonds even fell to below -1% during the month of August !

The reduction in interest rates therefore largely explains the increase in equity valuations, which recorded performance of between +20% and +30% for developed markets over the year. Equity values depend highly on the current value of future dividends, which increases when interest rates fall. The value maximization of bonds and real estate followed a similar mechanism, with the current values of coupons and rents respectively. For this reason, the reduction in interest rates increased all of these future earnings in current values, which enabled these two asset classes to also perform well in 2019.

Flash 2020 – coronavirus crisis

At the end of 2019 and the start of 2020, the COVID-19 pandemic emerged, disrupting all economic scenarios. The initial impact on the global economy was the near paralysis of China in January and February 2020. Closure of the "world's factory" caused numerous repercussions throughout the production chain, leading to a major supply shock. With the spread of the virus and the different lockdown measures introduced in many countries, demand also took a hit, as consumption was adversely impacted in many sectors. Fears of a similar joint shock on economic growth, which was already relatively weak, explain the downward spiral of the stock markets at the start of 2020.

However, recent events must be understood with a level head and a certain degree of hindsight. Historically, major disasters have generally been followed by a rebound in economic activity and growth in financial value. In terms of investments, it is therefore important to stay the course, without making any major changes to strategic asset allocation. The latter has just been redefined following the Asset Liability Management (ALM) study (see Focus), including a reduction in investment risks (6% reduction in the allocation to equities in favor of bonds, which are less risky). This new investment strategy was implemented at the end of 2019 and should enable the financial losses to be limited to a certain extent during the current crisis.

Performance of the Fund

With the general reduction of interest rates providing significant support, the majority of different asset classes achieved good or even excellent performance in 2019. The Fund thus recorded a consolidated performance, net of fees, of 14% over the year. The main contributors to this are outlined in the following table. The most significant of these are non-listed equities and real estate, which contributed almost half (7.3% out of 14%) and a quarter (3% out of 14%) respectively to the consolidated performance, net of fees, over the year. The Fund's residual exposure to foreign currencies (after currency hedging) also made a positive contribution. The cost saving on currency hedging fees for the currencies concerned more than offset their depreciation in CHF.

Main contributors to performance in 2019

Performance in %

	2019	2018
Equities	7.3	(3.3)
Bonds	2.1	(0.9)
Real estate	3.0	(0.4)
Private equities	0.5	0.6
Currency effects	0.3	0.0

Comparison of the Fund's performance

Performance in %

	1 year	3 years [1]	5 years [1]	10 years [1]
Fund	**14.0**	**6.1**	**4.4**	**5.0**
Fund Strategic asset allocation [2]	13.6	6.4	4.6	4.9
Credit Suisse Swiss Pension Fund Index [3]	10.9	4.8	3.6	3.9
UBS Swiss Pension Fund Index [3]	11.1	5.1	3.9	–

1) annualized
2) This is the only index for which we indicate performance gross of fees.
3) The Credit Suisse and UBS indices are calculated on the basis of the performance of the pension funds that have deposited their pension assets with these two institutions. In the case of the Credit Suisse index, which is published gross of wealth management fees, the figures in the table represent performances net of fees that we have obtained by subtracting a fee of 0.45% from the gross performance. This level of fees corresponds to the average fee calculated by our consultant PPCmetrics SA on a sample of 301 pension funds (audited annual accounts for 2018).

The primary measure of quality for the Fund's relative performance is the comparison of its effective performance with that of its chosen asset allocation strategy (AAS). The latter reported performance of 13.6% in 2019, 0.4% lower than that of the Fund. This difference of 0.4% is primarily a result of the private equities that outperformed their reference index.

As regards the evaluation of the Fund's performance compared to its peers, i.e. other pension funds in Switzerland, we use two indices that are provided and calculated by UBS and Credit Suisse (for further details, see the definitions provided in the notes for the table above). In 2019, these two representative universes also reported an excellent performance, albeit lower than that of the Fund. This difference is mainly due to a lower allocation of private equities and real estate assets in the UBS and Credit Suisse indices than in the Fund, as well as a greater proportion of Swiss bonds in the UBS and Credit Suisse indices. The Fund also outperformed the two indices over the last five years.

However, it should be noted that some of the allocation differences that enabled outperformance of the UBS and Credit Suisse indices over the last few years disappeared with the implementation of the new investment strategy in November 2019. This strategy is less risky, which satisfies the objectives pursued by the Investment Committee and the Fund's management (according to our expectations in section "Focus – Asset Liability Management (ALM) study"). It is therefore closer to the allocations of the UBS and Credit Suisse indices, which reflect the average allocation of Swiss pension funds.

Allocation of assets

The table opposite provides details of the effective asset allocations for the Fund at the end of 2019. The monthly rebalancing process for the Fund ensures that assets can always be allocated in a way that is close to the strategic asset allocation (last column in table). A few variations are inevitable however, in particular with regard to private equities, where the current pace of new investments does not enable the strategic asset allocation to be achieved any faster (4.8% effective allocation on December 31, 2019, and 7% strategic asset allocation to be achieved). The result is an underweighting of this asset class, which is essentially compensated by an overweighting of public equities (29.3% effective allocation on December 31, 2019, versus 27% strategic asset allocation).

Allocation in %

	31.12.2019	Strategic allocation
Liquidities and short-term investments	0.9	2.0
Equities	29.3	27.0
Private equities	4.8	7.0
Bonds	41.5	41.0
Swiss real estate	16.6	16.0
International real estate	6.6	7.0
Hedge funds	0.3	0.0
Total	**100.0**	**100.0**

Responsible investments

In November 2018, the Board approved a policy for responsible investments that forms an integral part of the Fund's investment regulations. This policy mentions, in particular, that the main objective is first of all to generate positive performance in the long term in order to guarantee the Fund's financial stability, but taking into account environmental, social and governance (ESG) criteria. It is therefore intended to help the Fund manage inherent investment-related risks better and support more sustainable performance.

The Fund invests its wealth exclusively through external asset managers and has translated its ESG commitments into the following three implementation principles. The Fund's asset managers must :

1. Exercise voting rights taking into account ESG factors (proxy voting) ;
2. Engage in dialogue with the firms in which the Fund has invested, addressing questions relating to ESG (commitment) ;
3. Systematically integrate ESG factors into their traditional financial analysis and their investment decisions (ESG integration) if they are considered to be active asset managers.

In 2019 and within the framework of its responsible investment policy, the Fund has introduced ESG monitoring for its asset managers. This monitoring is carried out by :

– Our external advisor on investment matters, who sends an ESG questionnaire to our asset managers every quarter in order to ensure that they are operating in line with our policy ;
– An independent consultant who performs an ESG evaluation of our asset managers, with a view to providing an opinion on the extent to which the ESG factors have been taken into account by the latter.

Today, we can confirm on the basis of this monitoring that :

– All the Fund's asset managers apply the aforementioned three implementation principles in line with the Fund's responsible investment policy.
– Our independent consultant's ESG assessment of the Fund's asset managers considers their performance as sufficient. This assessment will be updated every year.

With a view to improving the ESG transparency of its investments, the Fund's management is in the process of developing additional analyses :

– The compilation of a "watchlist" of firms subject to ESG risks that are held in the investment funds subscribed by the Fund ;
– The introduction of a dedicated report that the Fund's asset managers must draw up in order to inform the Fund of the exercising of their voting right and their dialog with the firms on the watchlist ;
– The preparation of a report on the climate risks relating to the Fund's investments. The transition toward a low-carbon economy in line with the Paris Agreement is leading to a multitude of new regulations around the world, which will have a direct financial impact on most companies.

Depending on the result of these analyses, the Fund will then be able to decide which measures to take. Since this is a constantly evolving issue, it is also important to maintain a pragmatic approach in order to adapt the principles and processes for responsible investments in the future.

Activities of the Investment Committee

In 2019, the main activities and decisions of the Investment Committee were as follows:

– The proposal for the session of the Board of Trustees on November 14, 2019, for a new investment strategy following the Asset Liability Management (ALM) study in "Focus" on page 3 – a proposal that was approved by the Board of Trustees;
– The approval of an implementation plan for this new investment strategy;
– The validation of the strategy for a new international unlisted real estate mandate that will focus mainly on the lower risk segment known as Core/Core+. This segment is typically invested in high-quality properties that are located in very attractive regions like city centers and managed through long-term lease contracts, in order to obtain a secured yield and not necessarily an increase in the value of the properties;
– The approval of an external and independent ESG evaluation at asset manager level, as well as the selection of a specialist partner for ESG screening at financial asset portfolio level. This screening will enable a better assessment in particular of the Fund's exposure to companies potentially subject to ESG risks;
– Regular monitoring of "risk, yield, cost and ESG" for all the Fund's financial asset management mandates. It should be highlighted in particular that a dedicated ESG section has been added to the Fund's quarterly performance report so that it can ensure that its asset managers are operating in line with its responsible investment policy.

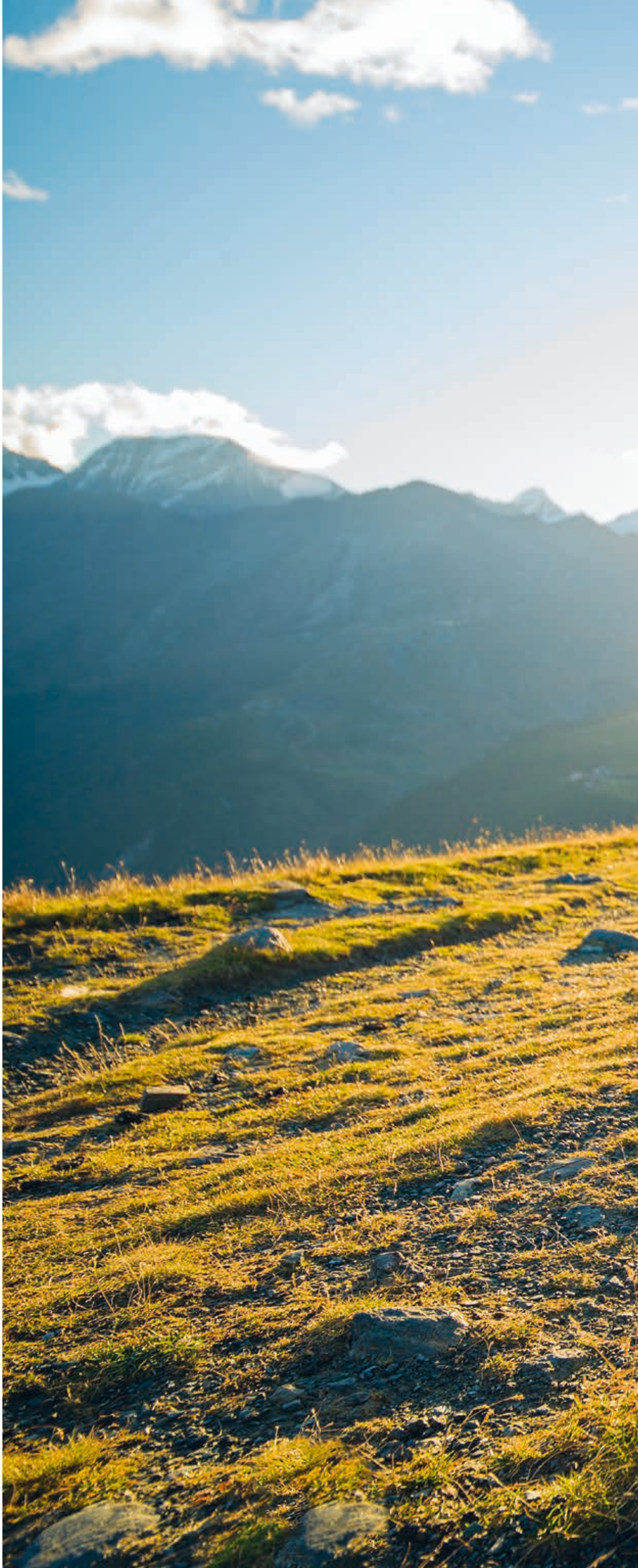
As mentioned previously, 2019 was excellent in terms of absolute performance and in relation to peers. This excellent result is also thanks to the extensive restructuring of the Fund's investments, carried out under the authority of the Investment Committee over the last few years. The latter will therefore continue to work in this way in order to further improve the yield/risk ratio of the Fund, while considering ESG criteria and a strict approach toward managing costs. It has thus validated the following key priorities for 2020:

– The launch of a new private equity fund in order to align the Fund's exposure in this asset class (4.8% on December 31, 2019) with that of its strategic benchmark (7%);
– Review and optimization of the Swiss real estate portfolio, particularly in the listed segment. This is composed of several Swiss listed real estate funds that offer greater liquidity than the unlisted segment;
– Analysis of the infrastructure asset class to explore the possibilities of integrating it into the Fund's investment strategy;
– Continuation of the responsible investment strategy pursued in 2018 and 2019 in order to obtain greater transparency from the Fund's asset managers and better understand its exposure to companies subject to ESG risks, with a view to being able to take action if necessary.

Conclusion

2019 proved to be an excellent financial year as the Fund achieved a performance of 14%. Although we are obviously delighted with the result, we must remain extremely prudent in terms of the strategic management of the Fund, especially with regard to the low expectations for financial return that we anticipate over the next few years.

In addition, the exceptional character of this performance contrasts with the many signals that the global economy is weakening and with the great political uncertainty, in particular with regard to the tensions between the US and China as well as the challenges facing Europe. Given these challenges, developed nations have further increased their level of debt, which will ultimately also have an impact on growth and future yields. In fact, we will have to be patient before we will be able to assess all the negative effects of the coronavirus crisis.



Funding ratio and actuarial situation

Actuarial situation

In millions of CHF

	31.12.2019	31.12.2018
Available assets	**7675.5**	**6942.2**
Liabilities		
Pension reserve for active members	2436.6	2522.3
Pension reserve for pensioners	4011.8	3971.8
Provision for increased life expectancy	48.2	23.8
Provision for death and disability risks	40.4	41.3
Provision for a future reduction in the technical interest rate	175.0	0.0
Total	**6712.0**	**6559.2**
Technical surplus		
Investment fluctuation reserve	963.5	383.0
Disposable surplus	0.0	0.0
Total	**963.5**	**383.0**
Funding ratio (assets / liabilities)	**114.4%**	**105.8%**

Total available assets

The total available assets for calculating the funding ratio correspond with the total assets listed in the statement (page 12) minus the debts and deferred liabilities as well as the employer contribution reserve.

Liabilities

The Fund's liabilities are composed of:

– **The pension reserve for active members**, which corresponds to the total retirement savings capital of the active members, but as a minimum the total of the retirement savings capital, according to statutory requirements;

– **The pension reserve for pensioners**, which corresponds to the total of the reserves built up with the aim of guaranteeing payment of the current pensions. Since December 31, 2018, this has been calculated using the LPP 2015 technical bases and a technical interest rate of 2.25%;

– The **reserve for increasing longevity**, for which the aim is to cover the financial effects resulting from the improvement in the life expectancy of pensioners. It must enable the Fund to finance the introduction of new technical bases in due course. This reserve stood at 1.2% of the pension reserve for pensioners on December 31, 2019, equating to CHF 48.2 million;

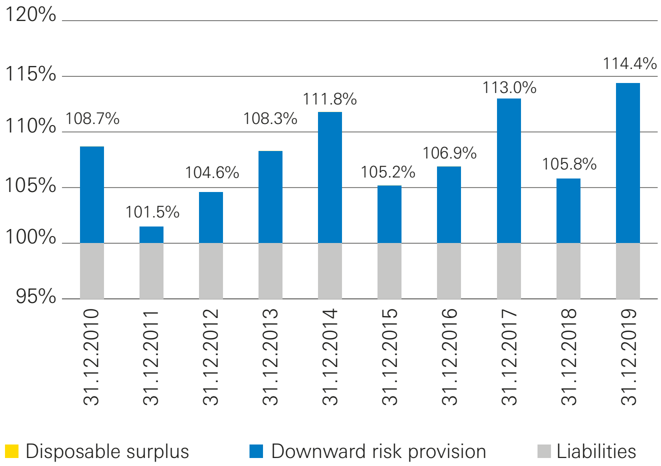
– The **reserve for risks of death and invalidity**, the aim of which is to fill the gaps between the effective cost of claims relating to invalidity and death and their average expected cost. This reserve stood at CHF 40.4 million on December 31, 2019;

– The **reserve for future reduction in the technical interest rate**, the aim of which is to support the cost resulting from a potential future reduction in the technical interest rate. After having been dissolved in 2018 with the effective reduction of the technical rate from 3% to 2.25%, this reserve received funding, in agreement with the Fund's occupational pension expert, of CHF 175 million at December 31, 2019. This amount corresponds to the cost of a 0.25% reduction in the technical interest rate, which is currently 2.25%, calculated on the basis of the support measures proposed as part of the changes introduced in 2018.

These reserves are built up in accordance with the regulation for technical reserves and the downward risk provision.

Funding ratio

The funding ratio of the Fund on December 31, 2019, was **114.4%** (compared with 105.8% at the end of 2018). It results from the ratio between its total available assets and its liabilities.



Downward risk provision

The aim of the **downward risk provision** is to compensate the fluctuations in the results of the Fund's investments. It amounted to CHF 963.5 million, which represents 14.4% of its total liabilities (5.8% on December 31, 2018). The target for the downward risk provision is fixed at 20% of its liabilities and was not achieved by December 31, 2019. Consequently, the Fund should allocate the future excess assets to the downward risk provision with the aim of building it up fully.

Uncommitted funds

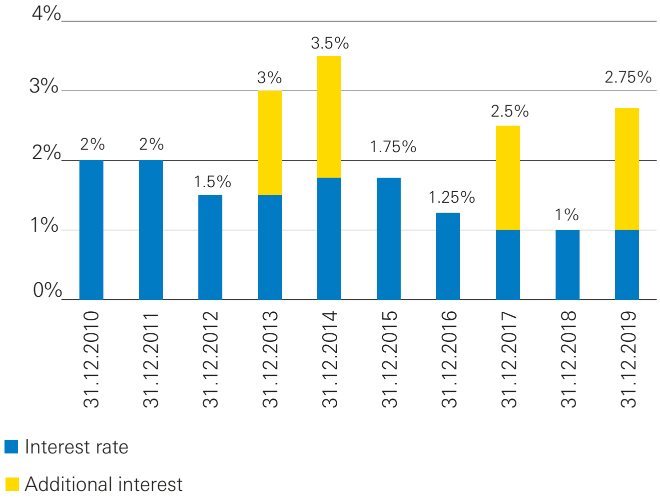
As the downward risk provision target was not reached by December 31, 2019, the Fund does not have any uncommitted funds at this date.

Interest payments and adjustment of pensions in payment

Payment of interest on retirement savings capital of active members

In 2019 and upon the decision of the Board of Trustees, the retirement savings capital of active members was credited with the minimum interest rate of 1 % along with an additional interest rate of 1.75 %, therefore taking the total payment over the year under review for active members to 2.75 %.

The annual payment of interest on retirement savings capital was 2 % on average over the last five years (2.05 % for the last 10 years). It remains significantly higher than the average interest paid on the basis of historical LPP minimum interest rates (1.35 % over 5 years and 1.57 % over 10 years).



In %

	2019	2018	2017	2016	2015	5 years	10 years
Interest rate	1.00	1.00	1.00	1.25	1.75	1.35	1.57
Additional interest (31.12)	1.75	0.00	1.50	0.00	0.00	0.65	0.47
Total remuneration	2.75	1.00	2.50	1.25	1.75	2.00	2.05

Adjustment of pensions

Every year, the Board of Trustees must adopt a position on the possible adaptation of current pensions. This decision must take into account several parameters: the observed rate of inflation, the performance of the Fund and its financial health, as well as the principle of equity between the active members and the pensioners during the year under review.

On January 1, 2020, the Board of Trustees therefore decided not to adapt the current pensions, primarily where the inflation rates over the last few years were close to 0 %, and also because the Fund had not fully constituted its downward risk provision.

In %

	2019	2018	5 years [1)]
Pension adjustment rate (at 1 January of the following year)	0.0	0.0	0.0
Inflation rate	0.2	0.7	0.0

1) Inflation between 01.01.2015 and 31.12.2019

Report of the auditing firm

KPMG SA
Audit Suisse romande
Avenue du Théâtre 1
CH-1005 Lausanne

Case postale 6663
CH-1002 Lausanne

Téléphone +41 58 249 45 55
Téléfax +41 58 249 45 65
www.kpmg.ch

Rapport de l’organe de révision au Conseil de fondation de

FONDS DE PENSIONS NESTLE (Fondation Edouard Muller), Vevey

Rapport de l'organe de révision sur les comptes annuels

En notre qualité d’organe de révision, nous avons effectué l’audit des comptes annuels ci-joints de FONDS DE PENSIONS NESTLE (Fondation Edouard Muller), comprenant le bilan, le compte d’exploitation et l’annexe pour l’exercice arrêté au 31 décembre 2019.

Responsabilité du Conseil de fondation
La responsabilité de l’établissement des comptes annuels, conformément aux dispositions légales, à l’acte de fondation et aux règlements, incombe au Conseil de fondation. Cette responsabilité comprend l’organisation, la mise en place et le maintien d’un contrôle interne relatif à l’établissement des comptes annuels afin que ceux-ci ne contiennent pas d’anomalies significatives, que celles-ci résultent de fraudes ou d’erreurs. En outre, le Conseil de fondation est responsable du choix et de l’application de méthodes comptables appropriées, ainsi que des estimations comptables adéquates.

Responsabilité de l’expert en matière de prévoyance professionnelle
Le Conseil de fondation désigne pour la vérification, en plus de l’organe de révision, un expert en matière de prévoyance professionnelle. Ce dernier examine périodiquement si l’institution de prévoyance offre la garantie qu’elle peut remplir ses engagements et si les dispositions réglementaires de nature actuarielle et relatives aux prestations et au financement sont conformes aux dispositions légales. Les provisions nécessaires à la couverture des risques actuariels se calculent sur la base du rapport actuel de l’expert en matière de prévoyance professionnelle au sens de l’art. 52e al. 1 LPP en relation avec l’art. 48 OPP 2.

Responsabilité de l’organe de révision
Notre responsabilité consiste, sur la base de notre audit, à exprimer une opinion sur les comptes annuels. Nous avons effectué notre audit conformément aux prescriptions légales et aux Normes d’audit suisses. Ces normes requièrent de planifier et réaliser l’audit de façon à obtenir raisonnablement l’assurance que les comptes annuels ne contiennent pas d’anomalies significatives.

Un audit inclut la mise en œuvre de procédures d’audit en vue de recueillir des éléments probants concernant les valeurs et les informations fournies dans les comptes annuels. Le choix des procédures d’audit relève du jugement de l’auditeur, de même que l’évaluation des risques que les comptes annuels puissent contenir des anomalies significatives, que celles-ci résultent de fraudes ou d’erreurs. Lors de l’évaluation de ces risques, l’auditeur prend en compte le contrôle interne relatif à l’établissement des comptes annuels pour définir les procédures d’audit adaptées aux circonstances, et non pas dans le but d’exprimer une opinion sur l’efficacité de celui-ci. Un audit comprend, en outre, une évaluation de l’adéquation des méthodes comptables appliquées et du caractère plausible des estimations comptables effectuées ainsi qu’une appréciation de la présentation des comptes annuels dans leur ensemble. Nous estimons que les éléments probants recueillis constituent une base suffisante et adéquate pour former notre opinion d’audit.

Opinion d’audit
Selon notre appréciation, les comptes annuels pour l’exercice arrêté au 31 décembre 2019 sont conformes à la loi suisse, à l’acte de fondation et aux règlements.

Rapport sur d'autres dispositions légales et réglementaires

Nous attestons que nous remplissons les exigences légales relatives à l'agrément (art. 52b LPP) et à l'indépendance (art. 34 OPP 2) et qu'il n'existe aucun fait incompatible avec notre indépendance.

Nous avons également procédé aux vérifications prescrites aux art. 52c al. 1 LPP et 35 OPP 2. Le Conseil de fondation répond de l'exécution de ses tâches légales et de la mise en œuvre des dispositions statutaires et réglementaires en matière d'organisation, de gestion et de placements.

Nous avons vérifié :

- si l'organisation et la gestion étaient conformes aux dispositions légales et réglementaires et s'il existait un contrôle interne adapté à la taille et à la complexité de l'institution ;
- si les placements étaient conformes aux dispositions légales et réglementaires ;
- si les comptes de vieillesse étaient conformes aux dispositions légales ;
- si les mesures destinées à garantir la loyauté dans l'administration de la fortune avaient été prises et si le respect du devoir de loyauté ainsi que la déclaration des liens d'intérêts étaient suffisamment contrôlés par l'organe suprême ;
- si les indications et informations exigées par la loi avaient été communiquées à l'autorité de surveillance ;
- si les actes juridiques passés avec des personnes proches qui nous ont été annoncés garantissaient les intérêts de l'institution de prévoyance.

Nous attestons que les dispositions légales, statutaires et réglementaires applicables en l'espèce ont été respectées.

Nous recommandons d'approuver les comptes annuels présentés.

KPMG SA

Jean-Marc Wicki
Expert-réviseur agréé
Réviseur responsable

Renaud Jotterand
Expert-réviseur agréé

Lausanne, le 26 mai 2020

Annexe :
- Comptes annuels comprenant le bilan, le compte d'exploitation et l'annexe

Fonds de Pensions
Nestlé

Fonds de Pensions Nestlé,
Avenue Nestlé 55, 1800 Vevey (Switzerland)