Fonds de Pensions Nestlé

Annual Report 2021


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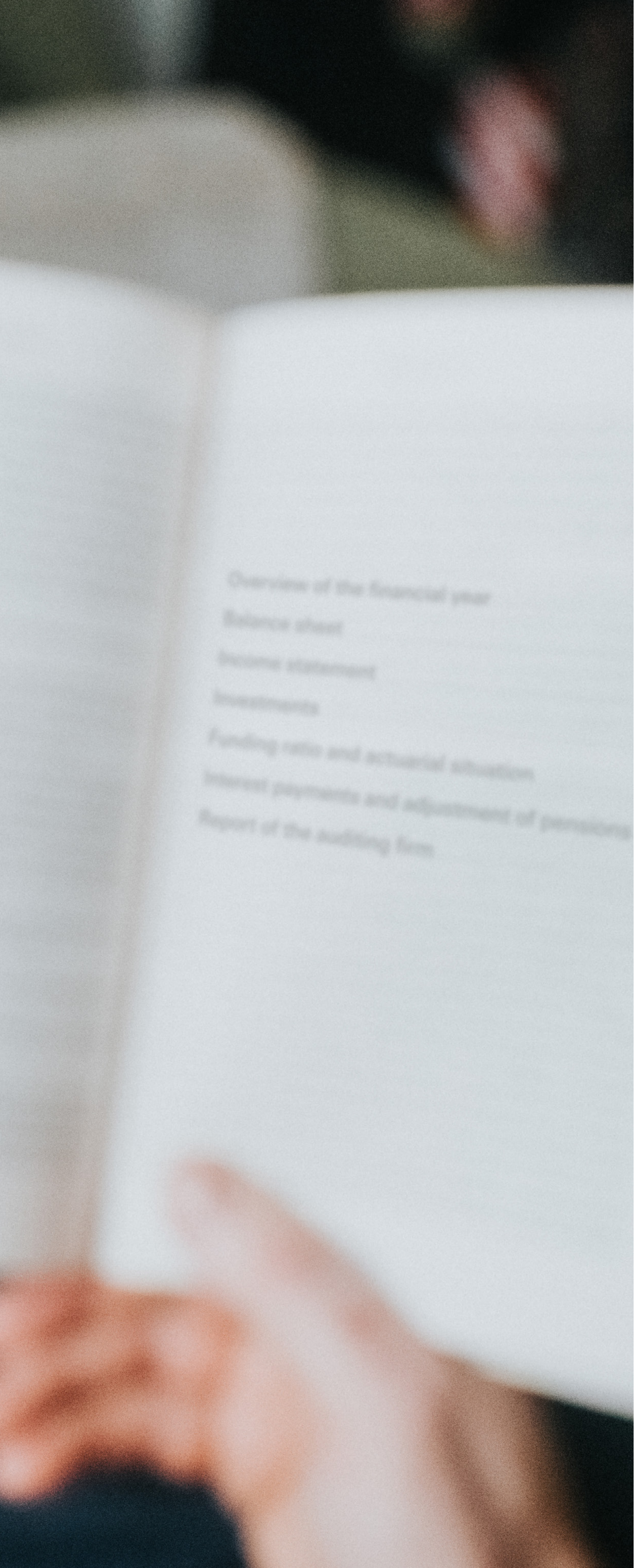

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In case of doubt or discrepancy,
the French version is authoritative.

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Impressum

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Foreword

Message from the Chair of the Pension Board

The COVID-19 pandemic continued to have a major impact in 2021. The rally in financial markets that began in March 2020, together with the extraordinary economic support measures adopted by governments and central banks, continued throughout most of last year. The economic recovery spread to all sectors of the economy, and was underpinned in particular by large-scale vaccination programmes deployed in most advanced countries.

Positive developments in financial markets benefited the Fonds de Pensions Nestle (hereafter the "Fund"), which achieved an excellent return of 10.2% in 2021 as opposed to 5.3% in 2020. This helped to strengthen the Fund's financial position further, taking its funded status from 118.3% on 31 December 2020 to 127.4% at the end of 2021. As a result, the Fund was able to increase the investment fluctuation reserve – the purpose of which is to compensate for inevitable swings in financial markets – to the target level of 20% and to report non-committed assets for the first time since 2008.

Given the Fund's performance in 2021 and its financial position at the end of the year, the Pension Board decided, during its ordinary meeting on 23 November 2021, to allocate additional interest of 3% to the retirement savings capital of active members insured with the Fund on 31 December 2021. Together with the minimum interest rate of 1%, this means that the total interest remuneration for active members was 4% for 2021. The Pension Board also decided to pay a special, one-off lump sum equal to half a monthly pension to the Fund's pensioners in January 2022.

As regards benefits, the Fund's actuarial parameters were adjusted on 31 December 2021 with the introduction of the new 2020 LPP/BVG actuarial tables and the reduction in the discount rate from 2.25% to 2%. People are living longer than before and this is confirmed by the new actuarial bases or mortality tables (discussed in the "Focus" section), although life expectancy, the chosen theme of this Report, is now increasing at a slower rate than previously. However, these two major changes – in the actuarial tables and the discount rate – have little impact on the insured benefits of current pensioners or on the conversion rates used by the Fund.

2021 was a very positive year for the Fund, its active members and its pensioners, and the uncertainty arising from the unprecedented consequences caused by the COVID-19 pandemic since the end of 2019 now seem to be fading. However, the pandemic is likely to continue having repercussions for some time to come, as exemplified by the sharp increase in inflation that accompanied the economic upturn in 2021.

Finally, at the time of writing, we cannot ignore the war in Ukraine and its tragic consequences. Since the war broke out in late February 2022 it has caused enormous human suffering, particularly among the Ukrainian people. The current situation and the concerns arising from the conflict are also having a considerable impact on the global economy and the financial markets in which the Fund invests. However, the Fund's Pension Board, Investment Committee and Management remain confident that the Fund's current financial position and diversified long-term investment strategy will enable it to cope with this uncertain situation.

Peter Vogt
Chair of the Pension Board

Focus – New 2020 LPP/BVG actuarial tables

Actuarial tables, also known as mortality tables, are a compilation of statistical observations showing the probabilities of death, disability, changes in civil status, childbirth, etc., occurring in a defined population during a given period (usually 5 years). They are used by occupational benefits institutions to calculate a number of factors, particularly:

- the conversion rates used to convert the accrued retirement savings capital of active members into a retirement pension;
- pensioners' liabilities;
- actuarial provisions, particularly the provision for longevity;
- death and disability risk premiums.

The statistical tables used by the Fund to calculate these factors are known as the "LPP/BVG actuarial tables". The Fund participated in the development of these tables in collaboration with 14 other pension funds, including those of ABB, comPlan, Coop, Credit Suisse, UBS, Migros, Publica, CFF and Swiss Re.

Actuarial tables are updated every five years to take account of the constantly evolving statistical data. Until last year, the Fund was using the 2015 LPP/BVG tables. However, on the recommendation of its accredited pension actuary, the Pension Board adopted the new 2020 LPP/BVG actuarial tables at its meeting on 23 November 2021.

Main findings on the transition to the new 2020 LPP/BVG actuarial tables

The most important information that emerged from the new 2020 LPP/BVG actuarial tables, compared with the 2015 edition, was that:

- while life expectancy continues to increase, the trend is not as pronounced as in the past,
- based on the latest observations, the probabilities of an entitlement to a spouse's or partner's pension on death have decreased.

One final remark about the 2020 LPP/BVG actuarial tables - they are based on statistical data from 2015 to 2019. As such, they do not include the year 2020 and, more particularly, the impact of COVID-19 on the current and future life expectancy of retirees. The long-term consequences are still very uncertain and will be taken into consideration in the 2025 LPP/BVG actuarial tables.

Impacts of this change on the Fund's conversion rates

From a purely actuarial point of view - all other things being equal – although increased longevity has a negative impact on conversion rates, because its corollary is an increase in the expected duration of pension payment, the decrease in probability that spouses' or partners' pensions will become payable on death has a positive impact on these same conversion rates..

This means that the effects introduced by the new tables are not significant enough to warrant a formal adjustment of the Fund's conversion rates. In other words, the marginal difference between the conversion rates under the new 2020 LPP/BVG actuarial tables and those of the 2015 LPP/BVG tables is sufficiently narrow not to require a change.

In the light of these findings, no changes were made to the Fund's conversion rates following the adoption of the new 2020 LPP/BVG Actuarial Tables on 31 December 2021.

Impact on pensions in payment and pension liabilities for pensioners

As pensions in payment are guaranteed, the switch to the new actuarial tables will have no impact on the amounts paid to pensioners.

As far as pensioners' liabilities are concerned, had the discount rate remained constant, they would have been slightly lower under the LPP/BVG 2020 actuarial tables than under the LPP/BVG 2015 tables. This is because the positive effect of the reduced probability of spouses' pensions becoming payable more than offsets the negative effect of the slight general increase in longevity.

However, the increase in pensioners' liabilities recognised in the balance sheet is due to the Fund lowering the discount rate from 2.25% to 2% on 31 December 2021.

Organisation (on 31 December 2021)

Pension Board

Employer representatives

Peter Vogt, Chair, Nestlé SA, Vevey
Hilary Halper, Nestlé Nespresso SA, Vevey
Sonia Studer, Nestlé Suisse SA, Vevey
Michèle Burger, Nestlé SA, Vevey
Gian Paolo Chiaia, Nestlé Suisse SA, Vevey
Mathieu Rieder, Société des Produits Nestlé SA, Vevey

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, Chair,
Société des Produits Nestlé SA, Vevey
Gian Paolo Chiaia, Nestlé Suisse SA, Vevey

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 von Roten, Investments

Accredited pension actuary

Didier Sauteur, Aon Suisse SA, Nyon

Investment advisor

PPCmetrics SA, Nyon

Auditors

Ernst&Young SA, Lausanne

Key figures

		31.12.2021	31.12.2020
Funded status		127.4%	118.3%
Available assets	In millions of CHF	8 730.2	8 001.3
Liabilities	In millions of CHF	6 853.9	6 763.2
– Pensioners' liabilities	In millions of CHF	4 046.2	4 023.7
– Active members' liabilities	In millions of CHF	2 600.7	2 460.0
– Actuarial provisions	In millions of CHF	207.0	279.5
Investment fluctuation reserve	In millions of CHF	1 370.8	1 238.1
Non-committed funds	In millions of CHF	505.5	
Investment performance (net of costs)		10.2%	5.3%
Asset management fees		0.79%	0.57%
Asset allocation			
– Cash and cash equivalents		1.4%	1.5%
– Equities		26.9%	29.2%
– Bonds		39.8%	40.2%
– Real estate		23.2%	23.0%
– Alternative investments		8.7%	6.1%
Interest rate on retirement savings accounts		4.0%	1.0%
Discount rate		2%	2.25%
Actuarial tables		LPP/BVG 2020	LPP/BVG 2015
Headcount		14 654	14 626
– Of which active members		8 715	8 697
– Of which pensioners		5 939	5 929

Overview of the financial year

Financial situation of the Fund

The Fund delivered a solid performance in 2021, generating a return of 10.2%. As in 2020, this was well above the average for Swiss occupational benefits institutions, which was 8% according to the Credit Suisse and UBS indices. It is also above its strategic benchmark (9.8%), which does not take account of fees. This robust performance was driven by strong gains in the equity markets, which were buoyed by soaring corporate profits as national economies reopened following the rollout of COVID-19 vaccination campaigns. Funded status, which corresponds to the ratio between the available pension assets and the liabilities of an occupational benefits institution, is an indicator of its financial health. That of the Fund improved again in 2021, increasing from 118.3% on 31 December 2020 to 127.4% on 31 December 2021. This valuation takes account of the adoption of the 2020 LPP/BVG actuarial tables, the reduction in the discount rate to 2%, and the distribution of surpluses to active members and pensioners. These adjustments are explained in detail in this report.

Pension Board resolutions

In 2021, the Pension Board passed the following resolutions:

- To adopt the new 2020 LPP/BVG actuarial tables on 31 December 2021 and the new rate of 0.4% to fund the provision for longevity;
- To lower the discount rate from 2.25% to 2% while maintaining a technical provision of CHF 175 million for future reductions (see explanations below on the reduction in the discount rate);
- To grant an additional 3% interest on the retirement savings accounts of active members, bringing total interest for the year to 4% on 31 December 2021 (see explanations on surplus sharing below);
- Not to adjust pensions in payment on 1 January 2022, but to grant a special one-off payment for 2021 equal to half a monthly pension (see explanations on surplus sharing below);
- To set the interest rate on retirement savings capital at 1% for 2022, in line with the Federal Council decision on the minimum LPP/BVG interest rate;
- To include a 4% allocation to infrastructure in the Fund's strategic allocation. This allocation is created by reducing allocations to listed international real estate (-2%) and foreign currency denominated government bonds (-2%);
- To re-appoint PPCmetrics as the Fund's investment consultant for a 3-year term, from 1 July 2021.

Reduction in the discount rate

The discount rate is the rate used by pension funds to determine their pensioners' liabilities, conversion rates, actuarial provisions, and death and disability risk premiums.

All other things being equal, a reduction in the discount rate:

- Increases the Fund's pension liabilities for pensioners;
- Negatively affects the funded status;
- Leads to a reduction in conversion rates.

Against a backdrop of financial market volatility and persistently low interest rates, the Pension Board decided to lower the discount rate from 2.25% to 2%, to further safeguard the Fund's financial position while reducing its need for a minimum rate of return. The latter is the minimum return that the Fund must obtain on its investments to maintain the funded status at a constant level.

As mentioned above, the positive impact that the new mortality tables will have on the conversion rate largely offsets the negative impact of the reduction in the discount rate. Consequently, the Pension Board has decided to keep the current conversion rates unchanged, which will have no impact on insured benefits.

This decision also brings us into line with the average discount rate used by our peers.

Sharing of surpluses

Each year the Pension Board must take decisions regarding the following matters:

- the funding and/or reversal of actuarial provisions;
- the allocation of additional interest on the retirement savings accounts of active members;
- the granting of additional benefits to pensioners.

Concerning the actuarial provisions, the provision for longevity was reversed in full following the adoption of the new 2020 LPP/BVG actuarial tables – it had initially been created for this purpose. No other actuarial provisions were set aside in 2021.

As regards the interest rate policy, it is dictated by certain basic principles - the Fund's performance in the current year, its financial stability, and a degree of equity between active members and pensioners.

Finally, the Fund's solid performance in 2021 enabled it to strengthen its financial position further and bring the investment fluctuation reserve up to its target level of 20%. As a result, the Fund now has non-committed funds and a funded status of over 120%.

In view of these results, the Pension Board decided to grant an additional 3% interest to active members insured with the Fund on 31 December 2021, bringing total interest on pension assets for the year to 4%, and to pay pensioners an exceptional one-off lump sum equal to half a monthly pension.

Balance sheet

In millions of CHF

	2021	2020
Assets		
Investments	8792.9	8070.7
Cash and short-term investments	120.6	121.6
Equities	2364.6	2357.4
Private equities	745.6	472.1
Bonds	3500.9	3247.6
Swiss real estate	1409.6	1394.6
International real estate	634.2	460.7
Hedge funds	17.4	16.7
Receivables and prepaid expenses	64.9	100.4
Assets and receivables	46.4	71.6
Employer participation	17.8	28.7
Prepayments and accrued income	0.7	0.1
Total assets	**8857.8**	**8171.1**
Liabilities		
Liabilities and accrued expenses	69.0	113.7
Vested termination benefits and pensions	53.2	68.7
Other payables	1.7	14.9
Accrued liabilities and deferred income	14.1	30.1
Employers' contribution reserve	58.6	56.1
Pension liabilities and actuarial provisions	6853.9	6763.2
Active members' liabilities	2600.7	2460.0
Pensioners' liabilities	4046.2	4023.7
Provision for longevity	0	72.4
Provision for death and disability risk	32.0	32.1
Provision for future reduction in the discount rate	175.0	175.0
Investment fluctuation reserve	1370.8	1238.1
Non-committed funds	505.5	0.0
Total liabilities	**8857.8**	**8171.1**

Operating account

In millions of CHF

	2021	2020
Ordinary and other contributions	329.3	340.5
Employers' contributions	141.8	142.1
Withdrawal from the employer contribution reserve	-2.1	-2.7
Additional employer contributions	20.9	28.3
Members' contributions	82.2	82.4
One-time payments and purchases	85.2	90.3
Transfers to the employer contribution reserve	1.2	
Payments from the LPP/BVG Security Fund	0.1	0.1
Entry lump-sum transfers	99.6	98.1
Entry lump-sum transfers	30.9	23.0
Reimbursements of withdrawals for home ownership and divorce	7.8	6.0
Transfer of reserves from other Pension Funds (Nestlé or others)	2.3	4.1
Transfer from the Fonds de Pensions Complémentaire Nestlé (pensioners)	58.6	65.0
Inflow from contributions and entry lump-sum transfers	**428.9**	**438.6**
Regulatory benefits	-337.5	-338.9
Pensions	-308.5	-309.3
Lump-sum payments and one-time allocations	-29	-29.6
Non-regulatory benefits	-13.1	-0.2
Voluntary pensions – extra-mandatory	-13.1	-0.2
Termination benefits and withdrawals	-165	-179.3
Termination benefits for leavers	-133.7	-148.3
Benefits paid following partial liquidation	-4.3	-8.0
Withdrawals for home ownership and divorce	-16.3	-9.3
Repayments to the Fonds de Pensions Complémentaire Nestlé	-10.7	-13.7
Outflow for benefits and withdrawals	**-515.6**	**-518.4**
Decrease/(increase) in pension liabilities, actuarial provisions, and contribution reserve	-87.5	-51.4
Active members' liabilities	-48.8	0.0
Pensioners' liabilities	-22.4	-11.7
Provision for longevity	0	-24.3
Provision for death and disability risks	72.4	8.3
Provision for future reduction in the discount rate	0.1	0.0
Remuneration of retirement savings capital	-91.9	-23.5
Employer contribution reserve	3.1	-0.2
Insurance cost – Contributions to the LPP/BVG Security Fund	-0.9	-0.9
Net result of insurance activities	**-175.1**	**-132.1**
Net return on investments	816.1	409.6
Gross return on investments	882.7	453.0
Asset management fees	-66.6	-43.4
Other income	0	0.1
Other expenses	-0.1	-0.5
Administration expenses	-2.8	-2.5
Income surplus/(expense surplus) before adding to/(releasing from) investment fluctuation reserve	**638.1**	**274.6**
Decrease/(increase) in investment fluctuation reserve	-132.6	-274.6
Income surplus/(expense surplus)	**505.5**	**0**

Investments

2021 – Year in review

There were three key developments in 2021, all closely related to COVID-19.

Although the threat posed by the pandemic diminished significantly, it is still too early to declare victory over the virus or to treat it as merely an endemic disease. In 2020, revolutionary new messenger RNA vaccines were developed in record time. Just as impressively, they have been delivered to hundreds of millions of people since the end of 2020, bringing hope that the pandemic will soon be at an end. This was not a foregone conclusion: although vaccine rollouts took place quickly in countries such as the United States, they were initially slow to get going in Europe and particularly in emerging-market countries. However, within a few months of each other, most developed countries quickly saw their vaccination rates rise to 50-60%. The pace then slowed, not because of vaccine availability issues but because some members of the population simply did not want to be vaccinated.

Rising vaccination rates led to a gradual reduction in the number of people in hospital, allowing governments to ease restrictions gradually. There were more than a few surprises and setbacks on the way. Firstly, the Delta variant appeared in summer 2021, and its greater severity forced some countries like Austria to reintroduce strict lockdowns in late autumn.

This was followed by the Omicron variant in November, which prompted some to fear the worst. Its more highly transmissible nature caused new case numbers to rise far above those that had previously been seen.

However, it caused less severe disease, and so hospitalisation rates fell gradually. Despite all these difficulties, by the end of 2021 there were hopes that the world could soon put the COVID-19 crisis behind it.

This relative decline in the pandemic led to the second major development of 2021, i.e., the economic rebound. The reopening of national economies spread to all sectors, including those that had suffered the most from COVID restrictions. This led to a spectacular recovery in consumer spending, which was to a large extent driven by extraordinary fiscal and monetary stimulus provided by governments and central banks. Most developed countries saw their GDP rise back to pre-pandemic levels in the second half of 2021. From March onward, corporate earnings started growing at a very rapid rate: by the end of the year, they had risen 50% in the space of nine months, to a level 20% higher than at the end of 2019.

This economic rebound triggered the third major development of 2021: a sharp rise in inflation, which many analysts and central banks initially regarded as temporary. The resurgence of economic activity caused an imbalance between strong demand, driven by the upturn in consumer spending against a background of lockdown-easing, and limited supply, with numerous bottlenecks arising because it took time to get supply chains up and running again and because inventories were very low. The result was rapidly rising prices, although there were hopes that this would prove short-lived once the natural balance of supply and demand was restored. However, those hopes faded over the course of the year, since inflation ended 2021 at more than 7% in the United States and 5% in Europe, the highest levels for decades. Although consensus forecasts suggest that inflation could fall back to 2-3% by the end of 2022, it has now become more entrenched, having spread in particular to wages and real-estate prices.

As a result, central banks are now actively tightening monetary policy to bring inflation down. Having injected liquidity into the economy by purchasing large amounts of bonds, one by one they are now tapering their asset purchase programmes and discontinuing them completely. Those programmes, which had grown to an unprecedented scale, had been developed or expanded specifically to combat the negative impact of the pandemic on the economy. Central banks are also raising official interest rates, having cut them close to zero in 2020 in a further attempt to support their economies during the pandemic.

Overall, these three major developments had a positive or very positive impact on equity markets in 2021. Developed-country equity markets delivered returns of roughly 20-30% (in Swiss franc-terms) last year.

Share prices were not overly affected by inflation and the threat of central bank monetary policy tightening, although they should have been in theory. Bonds, however, responded to these threats in the expected way, and most bond markets posted negative returns in 2021, with yields rising substantially in the majority of developed countries. Overall, however, positive equity returns more than offset bond losses, accounting in great part for the strong performance achieved by most occupational benefits institutions, and the Fund in particular, in 2021.

Performance of the Fund

As mentioned in the previous section, equity markets rose sharply in 2021, resulting in excellent returns for Swiss occupational benefits institutions in general and the Fund specifically.

The table below shows how each asset class contributed to the Fund's 10.2% absolute return in 2021. Listed equities accounted for around half of that return (5.5%), with the rest coming from private equity investments (2.5%), real estate (2.5%) and currency gains resulting from unhedged exposure to foreign currencies (0.5%). Unsurprisingly, bonds lost ground, but they were the only asset class to make a negative contribution in 2021 (-1.0%) and so the rise in bond yields had a limited impact on the Fund in 2021.

Main contributors to the Fund's absolute return in 2021

Return (%)

	2021	2020
Listed equities	5.5	4.3
Bonds	-1.0	1.8
Real estate (Swiss and international)	2.5	0.7
Private equity investments	2.5	0.6
Currency effects	0.5	-1.4

The main way of measuring the Fund's performance is to compare it with that of the strategic benchmark, which was 9.8% in 2021.

As a result, the Fund outperformed its benchmark by 0.4 percentage points. Most of this outperformance came from private equity, since the Fund's investments in this asset class strongly outperformed their benchmark.

In assessing the Fund's performance relative to its peers, i.e., other occupational benefits institutions in Switzerland, we use the indices calculated by UBS and Credit Suisse: for more details, please see the definitions in the notes to the table below. With a return of 10.2% in 2021, the Fund outperformed its peer group by more than 2 percentage points. The UBS index rose by 7.8% last year, and the Credit Suisse index by 8.1%. The Fund's outperformance relative to those indices was driven mainly by private equity investments. The Fund has a higher allocation to this asset class – which performed well in 2021 – than its benchmark indices.

Allocation (%)

	Actual allocation	Strategic allocation
Cash and short-term investments	1.4	2.0
Listed equities	26.9	27.0
Private equity investments	8.6	7.0
Bonds	39.8	41.0
Swiss real estate	16.0	16.0
International real estate	7.2	7.0
Hedge funds*	0.2	0.0
Total	**100.0**	**100.0**

* This percentage corresponds to residual investments in hedge funds that cannot be liquidated quickly.

Lastly, it should be noted that the Fund has also outperformed its two benchmark indices over longer timeframes (three, five and ten years).

Asset allocation

The table above shows the actual allocation of the Fund's financial assets as of 31 December 2021. The Fund's investments are rebalanced every month, allowing the actual allocation to remain close to the strategic allocation (last column of the table). Variances are, however, inevitable due to natural fluctuations in financial markets.

Asset management fees

Asset management fees comprise all fees paid by the Fund in relation to the day-to-day management of its investments. They include:

– Asset management charges including collective investment fees paid indirectly by the Fund;
– Transaction fees and levies such as Swiss stamp duty;
– Other fees including advisory and custody fees, as well as internal costs (salaries, IT etc.) related to asset management.

In 2021, the Fund's asset management fees equalled 0.79% of its assets, compared with 0.57% in 2020. The increase was mainly due to excellent returns from private equity investments, which give rise to above-average performance-related fees. That being said, the Fund's strong investment performance is reported net of these higher management fees.

Comparison of the Fund's performance

Return (%)

	1 year	3 years[1]	5 years[1]	10 years[1]
Fund	**10.2**	**9.8**	**6.8**	**5.8**
Strategic benchmark[2]	9.8	9.6	6.9	6.3
Credit Suisse index[3]	7.8	7.5	5.2	4.9
UBS[3]	8.3	7.9	5.6	–

1) Annualised.
2) This is the only index for which we quote returns before the deduction of asset management fees.
3) The Credit Suisse and UBS indices are calculated on the basis of returns achieved by pension funds that hold their pension assets with these two institutions. For the UBS index, returns are indicated net of fees, while for the Credit Suisse index, they are presented after deducting fees based on our own assumptions: we take the figure published by Credit Suisse (before the deduction of fees), and deduct the average annual asset management fee paid by Swiss pension funds according to our investment consultant PPCmetrics.
Finally, it should be noted that over longer periods – which are more suited to the timeframe of an occupational benefits institution – the Fund also outperforms its peers (5 years and 10 years in the table above)

Responsible investing

Since 2018, the Fund has a responsible investing policy through which it aims to generate returns in a more sustainable way and manage more effectively the inherent investment risks. The policy is defined in collaboration with the Nestlé Group, and has four key aspects:

1. Adopting a strategic focus on ESG, taking these criteria into account as far as possible in addition to the usual financial criteria of returns, risks and costs;
2. Applying ESG criteria as an integral part of the process when selecting asset managers and defining external mandates;
3. Regularly checking and monitoring ESG factors within the Fund's investments by assessing its external asset managers;
4. Communicating about the Fund's commitment to responsible investing.

In 2021, two ESG initiatives were launched in relation to the first two aspects above.

The first initiative was to implement the ESG negative screening approach approved by the Pension Board in November 2020.

This approach involves barring indirect investments by the Fund– via asset management mandates granted to external asset managers – in companies that are involved in:

- Controversial weapons
- Breaches of United Nations Global Compact principles
- Coal

The second initiative was to take ESG criteria explicitly into account as part of the new infrastructure investment programme to be launched in 2022. The aim of the programme is to achieve broad asset diversification while having a material positive ESG impact. That positive impact will be achieved by investing a significant proportion of assets in ESG sectors, including energy transition and renewable energies. Next, the aforementioned ESG negative screening approach will be included in the investment directives of the infrastructure programme. Finally, using an analysis matrix featuring infrastructure-specific ESG issues, each investment opportunity will be given E, S and G scores.

Opportunities that do not score sufficiently highly on all three aspects will be excluded from the infrastructure programme.

We would also highlight that external asset managers tasked with managing the Fund's assets are closely monitored in terms of both financial criteria (returns, risks and costs) and ESG criteria. As part of this monitoring, the Fund worked with consultants in 2021 to obtain independent ESG assessments of its asset managers. Managers are assessed on whether they factor ESG criteria explicitly into their investment processes, including in terms of shareholder engagement and voting in AGMs, and on the amount of resources (human and material) they devote to ESG.

We can confirm that these ESG assessments were satisfactory for all of the Fund's asset managers except one, which needs to improve its ESG practices. Formal discussions took place with that manager to encourage it to take appropriate measures. It then presented us with a development plan that should enable it to address its shortcomings relative to the other managers, and we will closely monitor the implementation of that plan.

Finally, the Fund will analyse the impact of climate-related risks on the way it invests and manages its assets in 2022.

Activities of the Investment Committee

In 2021, the main activities and decisions of the Investment Committee (hereafter the "Committee") were as follows:

– The proposal by the Pension Board to include a 4% infrastructure allocation in the Fund's investment strategy. This proposal was approved by the Pension Board in November 2021.
– The appointment of an infrastructure asset manager to implement a USD 300 million investment programme, taking a comprehensive and well diversified approach to

this asset class and investing in its least risky segments (the "Core" and "Core Plus" segments), while having a material positive ESG impact. In particular, the requirement for a positive ESG impact has resulted in significant exposure to the energy transition and renewable energies sectors.
- New mandates to implement ESG negative screening, excluding companies involved in controversial weapons, coal and breaches of United Nations Global Compact principles. This negative screening approach was approved by the Pension Board in November 2020.
- The appointment of two new Swiss unlisted real-estate asset managers, with total investments of around CHF 100 million. Those investments follow the decision taken in 2020 to increase the unlisted portion of Swiss real-estate assets from 50% currently to 75%.
- The proposal by Pension Board to retain PPCmetrics as an investment consultant to the Fund for a three-year term starting on 1 July 2021. That recommendation was made after inviting advisors to submit competitive tenders, and was approved by the Pension Board in May 2021.

The Committee will also continue to work on initiatives that it began in previous years, in relation to which it has adopted the following priorities for 2022:
- Analysis of new asset classes and investment opportunities that may be suited to the Fund's current investment strategy, particularly ESG investment opportunities such as green bonds;
- Quantification and management of climate risks among the Fund's investments;
- Inception of a new infrastructure fund that complies with the adopted investment approach;
- Changes to current ESG reporting methods in order to assess the decarbonisation trajectory of Swiss real-estate investments more effectively.

Conclusion

COVID recovery seems to be emerging gradually as the main scenario for the coming months, although a resurgence of infections cannot be ruled out, for example if more dangerous variants appear. The Fund's excellent results in 2021 were driven by the improvement in the COVID situation and the very strong economic rebound that resulted, particularly in terms of corporate earnings growth and its impact on share prices. Earnings growth is steadily becoming the sole driver of equity returns, since central banks are tightening monetary policy in order to combat inflation. Although this new environment brings with it some risks, particularly if economic growth slows, it also represents a welcome return to the fundamentals, with financial markets likely to be less dependent on central banks in future.

Funded status and actuarial situation

Actuarial situation

In millions of CHF

	31.12.2021	31.12.2020
Available assets	**8730.2**	**8001.3**
Pension liabilities		
Active members' liabilities	2600.7	2460.0
Pensioners' liabilities	4046.2	4023.7
Provision for future reduction in the discount rate	175.0	175.0
Provision for longevity	0.0	72.4
Provision for death and disability risks	32.0	32.1
Total liabilities	**6853.9**	6763.2
Technical surplus		
of which investment fluctuation reserve	1370.8	1238.1
in % of liabilities	20.0%	18.3%
of which non-committed funds/deficit	505.5	0.0
in % of liabilities	7.4%	0%
Funded status under the OPP2/BVV2	**127.4%**	**118.3%**

Available assets

The available assets used to calculate the funded status are obtained by subtracting debts, accrued liabilities and deferred income, and the employers' contribution reserve, from total balance sheet assets.

Liabilities

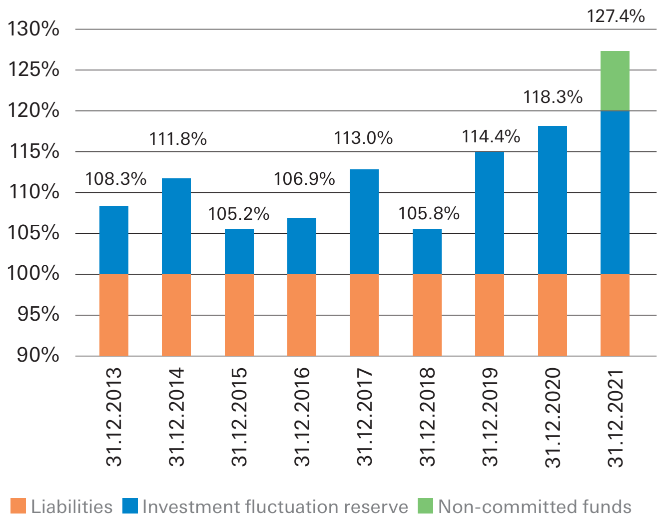
The Fund's liabilities are made up of:

- **pension liabilities for active members,** which correspond to the sum of their retirement savings capital accounts;
  pension liabilities for pensioners, which correspond to the total mathematical reserves required to guarantee payment of pensions in payment. Since 31 December 2021, they are calculated with the new 2020 LPP/BVG actuarial tables and a revised discount rate of 2%;the **provision for longevity,** which is intended to cover costs related to the increased life expectancy of pensioners, thereby funding the introduction of new actuarial tables. When the Fund adopted the new 2020 LPP/BVG actuarial tables on 31 December 2021, this provision was fully reversed. It will be re-provisioned from 2022 with an annual amount equivalent to 0.4% of pensioners' liabilities;
- the **provision for death and disability risks,** which is intended to compensate for fluctuations between the actual cost of death and disability claims recorded during the reporting year and their expected average cost. This provision stood at CHF 31 million on 31 December 2021;
- the **provision for a future reduction in the discount rate** which serves to cover the future costs of a reduction in the discount rate. This provision stood at CHF 175 million on 31 December 2021.

The provisions are established in accordance with the regulations on actuarial provisions and investment fluctuation reserves.

Funded status

On 31 December 2021, the funded status stood at 127.4%, up from 118.3% in the previous year. It corresponds to the ratio between the Fund's available pension assets and its pension benefit obligations. The latter consist of active members' and pensioners' liabilities, and actuarial provisions.



Investment fluctuation reserve

The **investment fluctuation reserve** is intended to compensate for fluctuations in the market value of the Fund's investments. On 31 December 2021, it amounted to CHF 1,370.8 million, which means that it reached its target level of 20% of the Fund's pension liabilities (18.3% on 31 December 2020).

Non-committed funds

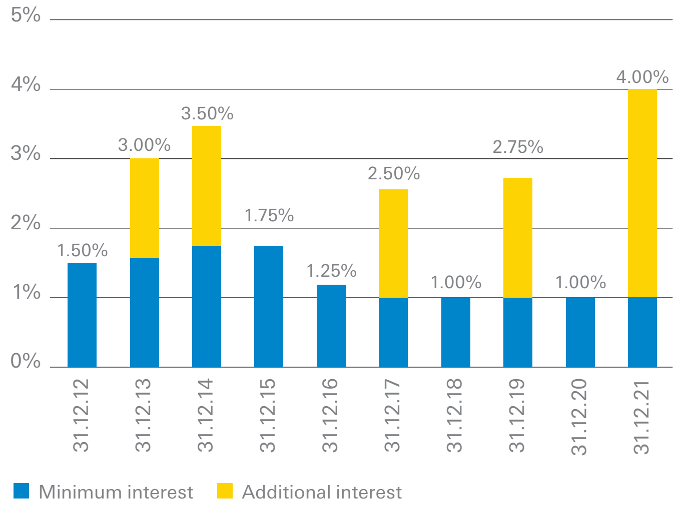
As the investment fluctuation reserve reached its target level, the Fund had non-committed funds of CHF 505.5 million on 31 December 2021.

Interest rates and pension adjustments

Interest on retirement savings capital of active members

In 2021, following a Pension Board resolution, the retirement savings capital of active members was credited with the minimum LPP/BVG rate of 1%, plus additional interest of 3%, bringing the total credit interest rate for the reporting year to 4%.

By way of comparison, the average annual interest rate on retirement savings capital over the last five years is 2.24% (2.22% over the last ten years). This is considerably higher than the average annual LPP/BVG minimum rate of 1% over 5 years and 1.28% over 10 years.



In %

	2021	2020	2019	2018	2017	5 years	10 years
Minimun interest	1.00	1.00	1.00	1.00	1.00	1.00	1.28
Additional interest (31.12)	3.00	0.00	1.75	0.00	1.50	1.24	0.94
Total interest	4.00	1.00	2.75	1.00	2.50	2.24	2.22

Adjustment of pensions

The Pension Board is legally required each year to decide on any adjustments to be made to pensions in payment. Their decision is based on several parameters, including the inflation rate, the performance of the Fund, its financial health, and the principle of equity between active members and pensioners.

Although the Pension Board decided against adjusting pensions in payment on 1 January 2022, it decided, exceptionally, to grant an additional one-off lump sum equal to half a monthly pension for 2021.

In %

	2021	2020	5 Years [1]
Pension adjustment rate (on 1 January of the following year)	0.0	0.0	0.0
Change in inflation rate	1.5	-0.8	0.25

1) Inflation between 01.01.2016 and 31.12.2021

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