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Fonds de Pensions Nestlé

Annual Report 2018



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

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This annual report has been illustrated with photographs related to the "Fête des Vignerons".
Cover:
Vine-child (1999),
current page:
Emotions (1999)



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Foreword

Message from the Chairman of the Board of Trustees

Following an excellent performance in both 2016 and 2017, 2018 proved to be more challenging for the Fonds de Pensions Nestlé (the Fund), with investments recording a negative performance of 4.0% in a nervous climate influenced by the tightening of US monetary policy, trade tensions and political crises in Europe. These concerns were reflected in a sharp decline in the equity market in the fourth quarter. In light of this, the vast majority of asset classes and, as a result, pension funds in Switzerland posted a negative performance in 2018. As a result, the funding ratio was 105.8% as at December 31, 2018, down 7.2% from 113% at the end of 2017.

In view of these results, the Board of Trustees decided at its regular meeting on November 20, 2018 to credit only the minimum LOB rate of 1% on the retirement assets of active insured members, with no additional interest. Furthermore, given near-zero inflation, it also decided not to adjust pensions in payment on January 1, 2019.

In terms of benefits, 2018 was marked by the modification of the pension plan, in particular the reduction of the technical discount rate from 3% to 2.25% and the implementation of new conversion rates used to calculate retirement pensions. To mitigate the negative effects of such a change as far as possible, various accompanying measures, including a general increase in savings contributions and the introduction of a conditional guarantee for a large number of insured members, were successfully implemented on July 1, 2018. These measures, made possible by the generous support of the employer and the healthy situation of the Fund, have also enabled pensions in payment to be maintained for pension beneficiaries who have not been affected by the change in the pension plan.

A number of actions were also undertaken in 2018 to improve the Fund's governance, including publication of organizational regulations, the new composition of the Investment Committee and the introduction of a new internal control system. These changes made in 2018 mean that the Fund is now in the best possible position to meet the challenges it faces.

Finally, 2018 was also an election year for the Board of Trustees, whose mandate was renewed for a period of four years from July 2018 to June 2022. As Chairman of this Board, I would like to thank the members who have worked to ensure the smooth running of the Fund during the previous mandate and extend a warm welcome to the new members.

On a lighter note, you will discover when reading this report that the illustrations chosen are photographs related to the "Fête des Vignerons" in Vevey, the 2019 edition of which will take place from July 18 to August 11. This event, which is strongly rooted locally and has a national and even an international reach, brings together all generations and celebrates traditions, modernity and openness to the outside world. In many respects, these concepts associated with the Fête des Vignerons therefore mirror our Vevey-based Fund, which has been working for more than 75 years now to offer sustainable, attractive and innovative pension benefits to its active insured members as well as current and future pension beneficiaries.



Peter Vogt
Chairman of the Board of Trustees



Focus – responsible investment

What is “responsible investment”?

In just a few years, public and political awareness of sustainability issues has become more important and universal than ever. It affects all sectors of activity.

For example, the food industry, in which Nestlé is clearly one of the main players, faces increasingly demanding consumers. They not only want to understand the impact of food offered on their health, but also on society and the environment. The food industry has therefore had to adapt to consumer demands.

Today, there is a similar trend in the financial industry. Investors want to know how their money is invested and what governments and companies are doing in terms of environmental, social and governance (“ESG”) issues.

Responsible investment is therefore deemed to take into account ESG factors in the development and management of an investment strategy to favor investments in companies adopting best practices on issues related to the sustainability of our world.

What are pension funds doing?

Pension funds are at the forefront regarding questions related to responsible investment since, through them, everyone is affected.

As a result, they can no longer focus solely on the return and risk of the investment portfolio at acceptable management costs, but now also have to factor ESG aspects into the equation. But how can we incorporate into investment portfolios the legitimate concerns of insured members regarding societal and environmental impacts? In other words, how can boards of trustees assume their fiduciary responsibility to ensure a return on capital and their social responsibility to help safeguard the sustainability of our society in which their insured members live?

While pension funds in Switzerland today are now interested in responsible investment and the issues associated with it, they are faced with a plethora of different solutions, the main ones being as follows:

- “Proxy voting”: exercising voting rights taking into account ESG factors;
- “Engagement”: engaging in dialogue with held companies by addressing ESG-type issues;
- “ESG integration”: incorporating ESG factors into their traditional financial analysis and investment decisions;
- “Negative screening”: excluding companies, activity sectors, countries or asset classes that do not meet their ESG standards from their investment universe;
- “Best in class”: selecting the companies with the best ESG quality in their activity sector;
- “Themed investments – impact investing”: investing in issues related to ESG factors such as renewable energy, water, education, etc.

Moreover, as there is no recognized standard in this area, the application of ESG criteria remains highly subjective, and a company that is well rated by one investor may be excluded by another. While the debate is universal, financial professionals remain divided as to its implementation. This reflects the diversity of opinions on the subject among the general public and political parties. While everyone wants a sustainable society, only a minority seem willing to change their habits significantly or to make the necessary financial efforts.

As a result, Swiss pension funds are following different road maps. They decide, based on their priorities, strategies and convictions, both on the definition of their social responsibility and on the solutions to be implemented.

What is the Fonds de Pensions Nestlé doing?

The Fund closely monitors developments related to responsible investment. Given the boom in financial products based on ESG criteria and faced with the lack of standards in this area, the Fund has decided to take a determined but considered step forward, while maintaining a degree of pragmatism and always acting in the interests of its insured members.

In 2017, the Fund decided to fully divest commodities in order not to hold any speculative positions in them, as well as alternative investments or hedge funds which, due to their short-term horizon, generally do not incorporate ESG criteria.

In 2018, the Fund defined its own responsible investment policy. This is now an integral part of its investment regulations and includes a guiding principle shown below, as well as more detailed investment and implementation principles.

“Guiding principle: The Fund believes that responsible investment creates value for society and helps to secure the sustainability of our world in which our insured members live. Accordingly, the Fund undertakes to add, to the extent possible but in a formal manner, consideration of “ESG”-type criteria to the return, risk and cost parameters when formulating its investment strategy and managing its assets.”

In particular, the policy states that the main objective is to generate a positive long-term performance in order to guarantee the financial stability of the Fund while taking into account ESG criteria. This will help the Fund to better manage the inherent risks of its investments and thus support sustainable performance.

Today, we can already confirm that all the Fund's asset managers¹

- exercise voting rights taking into account ESG factors; and
- engage with companies by addressing ESG-type issues.

In addition, all our active asset managers systematically incorporate ESG factors into their traditional financial analysis and investment decisions. In 2019 and in the future, the Fund undertakes to:

- explore other opportunities that incorporate ESG factors by respecting its responsible investment policy and its fiduciary duty to its insured members, while continuing to adopt a cost-conscious approach;
- systematically incorporate analysis of ESG criteria into the selection process for new asset managers, as was recently done for the selection of an unlisted international real estate manager;
- improve transparency on the management of its investments and its commitment to ESG issues.

Conclusion

While the financial industry is beginning to meet the expectations of investors who are demanding greater transparency and social responsibility in their investments, much remains to be done.

The Fund is fully aware of these changes and addresses this issue during meetings of the Board of Trustees and the Investment Committee. It has now defined its own responsible investment policy, which it will take into account in the definition and implementation of its investment strategy going forward. Finally, the Fund is committed to implementing comprehensive communication to give its insured members greater transparency on the subject.

¹ We would like to clarify that the Fund does not hold any shares directly, but only through collective funds. As a result, the Fund does not have voting rights; these are therefore exercised by the managers of the collective funds.



**Village of Rivaz
VD, set beside
Lake Geneva,
with view to
Lavaux vineyard
terraces. World
heritage site of
UNESCO.**



Organisation (at 31.12.2018)

Board of Trustees

Employer representatives

Peter Vogt, Vevey, Chairman of the Board
Nicole Dominik, Nestlé Suisse SA, Vevey
Ricardo Cortes-Monroy, Nestlé SA, Vevey
Gian Paolo Chiaia, Nestlé Suisse SA, Vevey
Mathieu Rieder, Nestec SA, Vevey
Daniel Weston, Nestlé Nespresso SA, Lausanne

Member representatives

Marcel Baumgartner, Nestec SA, Vevey
Jérôme Bonvin, Nestlé Suisse SA, Vevey
David Fahrny, NOSW, Bussigny
Beat Hess, Nestlé Suisse SA, Vevey
Dominique Rovero, Nestlé Nespresso SA, Avenches
Oriane Seydoux, Nestec SA, Vevey

Pensioners' representative in an advisory capacity

Martin Suter

Investment Committee

Members of the Investment Committee

Mathieu Rieder, Nestec SA, Vevey, Chairman of the Committee
Beat Hess, Nestlé Suisse SA, Vevey

Oriane Seydoux, Nestec SA, Vevey
Daniel Weston, Nestlé Nespresso SA, Lausanne

Other contributors

Administration

Christophe Sarrasin, Director
Christian Rey, Head of Benefit administration

Investment Advisor

PPCmetrics, Nyon

Certified pension actuary

Jean-Marc Wanner, Nyon

Auditors

KPMG SA, Lausanne



Friends of the
wedding ceremony
(1999)



The Garden of "Orphée" (1999)

Key figures

		31.12.2018	31.12.2017
Funding ratio		105.8%	113.0%
Total of available assets		6942.2	7223.0
Liabilities	In millions of CHF	6559.2	6391.8
– Pension reserve for pensioners		3971.8	3476.9
– Pension reserve for active members		2522.3	2546.0
– Technical provisions		65.1	368.9
Investment fluctuation reserve		383.0	831.2
Investments performance		–4.0%	9.1%
Assets allocation			
– Cash		2.0%	3.4%
– Equities		32.6%	36.3%
– Bonds		36.5%	33.4%
– Real estate		22.8%	20.5%
– Alternative investments		6.0%	6.4%
Interest payments on retirement savings capital		1.0%	2.5%
Technical interest rate		2.25%	3.00%
Mortality tables		LOB 2015	LOB 2010
Total headcount		15 758	16 255
– Active members		9 967	10 599
– Pensioners		5 791	5 656

Overview of the financial year

Financial situation of the Fund

The Fund posted a performance of -4.0% in 2018, primarily due to the listed equity markets, which lost a lot of ground in the fourth quarter following investors' concerns about future growth prospects. The Fund's 2018 performance is also below that of its strategic benchmark (-3.3%), which does not take management fees into account.

The Fund's funding ratio in 2018 was in line with the overall performance, falling from 113.0% as at December 31, 2017 to 105.8% as at December 31, 2018. The funding ratio is one of the most commonly used statistical elements for evaluating the financial health of a pension fund, since it reflects the ratio of its assets to its liabilities.

The update of the mortality tables as at July 1, 2018 and the application of the new technical discount rate of 2.25% (3% previously) did not affect the Fund's funding ratio thanks to the generous contribution of the employer and the release of provisions for increased life expectancy and for a future reduction in the technical discount rate. These provisions had been created and increased precisely with a view to anticipating these consequences. The provision for increasing life expectancy was nevertheless topped up with a further CHF 23.8 million as at December 31, 2018, corresponding to 0.6% of the pension reserve for pension beneficiaries, to finance the next scheduled adjustment of the mortality tables in 2022.

Board of Trustees decisions

In 2018, the Board of Trustees decided:

- to amend the Fund Regulations as at July 1, 2018 to take into account, in particular, the reduction in the technical discount rate from 3% to 2.25% , as well as the update of the mortality tables with the adoption of the LOB 2015 tariffs and the integration of compensatory measures to limit the reduction of retirement benefits;
- to adopt new organizational regulations defining the management of the Fund, as well as the tasks and competences of its bodies;
- to amend the investment regulations by adopting a responsible investment policy and deleting the provisions on organization and governance that are now included in the new organizational regulations;
- not to grant additional interest on retirement savings capital as at December 31, 2018 and consequently to pay 1% on retirement savings capital in 2018;
- to fix the rate of interest on retirement savings capital at 1% for 2019, in line with the decision of the Swiss Federal Council regarding the LOB minimum interest rate;
- not to grant any pension increase as at January 1, 2019 in light of the Fund's financial situation and weak inflation in 2018;

- to modify the structure and composition of the Investment Committee to improve governance and align employee representation with that of employers.

Finally, the Board of Trustees noted the Fund's harmonization of its internal control system ("ICS"), the legal framework of which has been presented, and the benefits it will bring to the Fund.

Renewal of the Board of Trustees

The Board of Trustees, the highest body of the Fonds de Pensions Nestlé, comprises 12 members: six employer representatives and six employee representatives. These 12 members are supported by 12 deputies, who may have to replace an absent or resigning member.

As the term of office of the members and deputies of the Board of Trustees expired on June 30, 2018, the Board of Trustees was renewed for the next four years from July 1, 2018.

An election process was put in place for the renewal of employee representatives, while employers appointed their representatives themselves.

Peter Vogt, who accepted the employer's request to remain one of its representatives following his retirement, was unanimously elected Chairman of the Board of Trustees.



The "Vendangeuses-Bacchantes" observing solar eclipse as of August 11, 1999

Balance sheet

In millions of CHF

	2018	2017
Assets		
Investments	6994.3	7298.6
Cash and short-term investments	140.6	250.3
Equities	2279.5	2649.3
Private equities	401.1	445.0
Bonds	2555.6	2436.9
Swiss real estate	1140.5	1051.9
International real estate	456.2	443.0
Hedge funds	20.8	22.2
Accrued income	75.7	41.1
Assets and receivables	40.6	23.7
Employer participation	19.7	0.6
Prepayments and accrued income	15.4	16.8
Assets: grand total	7070.0	7339.7
Liabilities		
Accrued expenses	75.7	58.1
Vested benefits and pensions	67.4	50.7
Other payables	6.1	6.2
Accrued expenses and deferred income	2.2	1.2
Employers' contributions reserve	52.1	58.6
Pension reserves and technical provision	6559.2	6391.8
Pension reserve for active members	2522.3	2546.0
Pension reserve for pensioners	3971.8	3476.9
Provision for increased life expectancy	23.8	145.9
Provision for death and disability risks	41.3	49.4
Provision for a future reduction in the technical interest rate	0.0	173.6
Investment fluctuation reserve	383.0	831.2
Disposable surplus	0.0	0.0
Liabilities: grand total	7070.0	7339.7

Income statement

in millions of CHF

	2018	2017
Ordinary and other contributions	378.5	291.8
Employers' contributions	151.5	132.3
Supplementary employer contributions	59.9	7.3
Members' contributions	90.2	86.1
Single premiums and voluntary purchase	76.8	65.9
Subsidies from Guarantee Fund	0.1	0.1
Vested benefits from other institutions	205.5	137.8
Vested benefits rolled over from other institutions	32.8	24.6
Refunds of early withdrawals for home ownership and divorce	5.5	4.2
Reserve transfers from other Nestlé Funds + Swiss	4.1	5.6
Transfer from the Fonds de Pensions Complémentaire Nestlé (retirees)	163.1	103.4
Contributions and vested benefits from other institutions	584.0	429.6
Statutory benefits paid out	(335.7)	(311.7)
Statutory pensions	(300.6)	(291.2)
Lump sums and one-time allowances	(35.1)	(20.5)
Non-statutory benefits	(0.2)	(0.1)
Voluntary pensions – non-statutory	(0.2)	(0.1)
Vested benefits and early withdrawals	(239.6)	(198.3)
Vested benefits rolled over to other institutions	(207.9)	(161.4)
Benefits paid following partial liquidation	0.0	(4.4)
Early withdrawals for home ownership and divorce	(16.9)	(19.2)
Return to the Fonds de Pensions Complémentaire Nestlé	(14.8)	(13.3)
Expenses relating to benefits and early withdrawals	(575.5)	(510.1)
Dissolution (constitution) of pension reserves, technical provisions and contributions reserves	(161.0)	(128.1)
Pension reserve for active members	47.8	27.5
Provision reserve for pensioners	(494.9)	(73.5)
Provision for increased life expectancy	122.0	(23.3)
Provision for death and disability risks	8.1	4.5
Provision for a future reduction in the technical interest rate	173.7	(3.5)
Remuneration of savings capital	(24.2)	(58.4)
Employers contributions reserve	6.5	(1.4)
Insurance expenses – contributions to guarantee fund	(0.8)	(0.9)
Net income from insurance activity	(153.3)	(209.5)
Net investment income	(290.9)	614.6
Gross return on investments	(251.0)	674.0
Asset management fees	(39.9)	(59.4)
Other income	0.7	0.1
Other expenses	(1.7)	(0.5)
General administration costs	(3.0)	(3.5)
Balance of income (expenses) before additions to (releases from) investment fluctuation reserve	(448.2)	401.2
Dissolution / (constitution) of investment fluctuation reserve	(448.2)	(401.2)
Balance of income (losses)	0	0

Investments

2018 in review

In retrospect, 2018 proved to be a year of change on the financial markets. Tightening US monetary policy, trade tensions and political concerns in Europe began to dominate markets. Signs of economic gloom and a slowdown in global growth set in during the year, decreasing companies' earnings prospects. Stock markets eventually fell in the fourth quarter as investors feared the end of the economic cycle.

But let us return in more detail to the concerns that emerged during 2018. As already mentioned, the US Federal Reserve's (FED) monetary policy became more restrictive, with four increases in its key rate, the target range of which is now between 2.25% and 2.5% as at the end of 2018 (an increase of 1% compared with the end of 2017). These higher rates have resulted in a stronger dollar, a slowdown in the real estate market and a depreciation in equities, particularly in higher-risk segments such as small caps and emerging markets. Investors fear that the rising cost of credit will have a negative impact on company profits, household consumption and, ultimately, the economy as a whole.

Trade tensions, particularly between the United States and China, also governed stock markets in 2018. The American government has already introduced taxes on several hundred billion imported Chinese goods, while China has also increased its customs duties to up to 25% on some goods imported from the US. While these trade relations appear to have relaxed in 2019, it is worth recalling that trade wars generally do not have a winner in the long term and that it is unlikely that the tensions of 2018/2019 will have a positive impact on the economies of either of the parties involved.

In Europe, political turbulence continues, creating a climate of uncertainty that darkens prospects for investors. Concerns about Italian debt have been rekindled by the new government's reluctance to reduce it, a disorderly Brexit became more likely at the end of 2018, and the "gilets jaunes" movement weakened the French government. In light of this, the ECB is expected to further delay the normalization of monetary conditions it planned to implement in 2019. Investors now expect no increase in its main policy rate before 2020. An increase in interest rates would be even more justified in Switzerland given its solid economic growth, but the SNB will be unable to raise its key rate before the ECB unless it wants to risk rapid appreciation of the Swiss franc against the euro.

Emerging countries were hit hard by the rise in US interest rates. The resulting strengthening of the US dollar has led to inflation and impacted on local currencies, some of which have collapsed, such as the Turkish lira and the Argentine peso. In China, GDP growth declined continuously in 2018 to 6.4% in the final quarter. Thanks to government stimulus measures such as major liquidity injections and new infra-





Fête des 20 Célerons 19

du 18 juillet au 11 août
Vevey-Suisse

Costumes of the festival 2019 (left to the right): "Effeuilleuse", "Cent pour Cent", "Bourgeon" and woman from "Saint-Martin".

structure investments, the Chinese economy ultimately weathered the impact of US customs duties fairly well.

Performance of the Fund

In this unfavorable environment, where the vast majority of the different asset classes (equities, bonds, real estate, etc.) recorded negative results, the Fund posted a performance (net of costs) of -4.0% in 2018.

In terms of the Fund's investments, the disappointing results of listed shares explain the majority of the 2018 performance. Against a backdrop of rising interest rates, the bond and real estate markets also made an overall negative contribution to the Fund's 2018 performance, albeit to

a lesser extent. Only private equity made a positive contribution to performance, while the Fund's residual foreign currency exposure (after currency hedging) had a neutral impact on performance.

Main contributors to performance

Performance in %	2018	2017
Equities	(3.3)	6.0
Bonds	(0.9)	1.3
Real estate	(0.4)	1.2
Private equities	0.6	0.9
Currency effects	0.0	(0.6)





Coronation of the "vignerons-tâcherons" rewarded for their excellent work by "Confrérie des Vignerons" (1999)

Comparison of the Fund's performance

Performance in %

	2018	3 years ¹⁾	5 years ¹⁾	10 years ¹⁾
Fund	(4.0)	3.5	3.2	4.9
Fund Strategic asset allocation ²⁾	(3.3)	4.1	3.8	5.2
Credit Suisse Swiss Pension Fund Index ³⁾	(3.6)	2.4	3.0	3.8
UBS Swiss Pension Fund Index ³⁾	(3.3)	2.6	3.2	–

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 0.43% 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 2017).

Comparison of the Fund's performance against its objectives

The main measure of the quality of the Fund's relative performance is the comparison of its actual performance with that of its strategic benchmark. In 2018, the latter posted a performance of –3.3%, or 0.7% more than the Fund. This difference of 0.7% is mainly due to i) asset management fees, which are taken into account in the Fund's performance but not in that of its strategic benchmark, and ii) private equity, whose absolute performance is good but lower than that considered for the calculation of the strategic benchmark's performance.

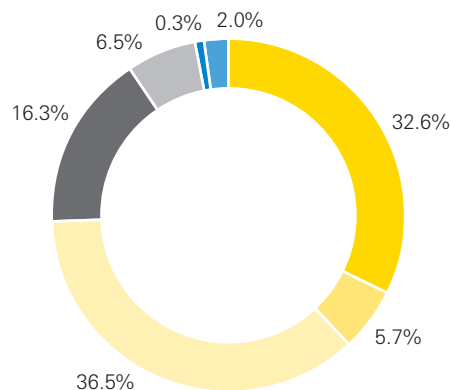
In assessing the Fund's performance relative to its peers, i.e. other pension funds in Switzerland, we use two indices that are proposed and calculated by UBS and Credit Suisse (for further details see the definitions given in the notes to the table above). In 2018, the performance of these two representative universes was also in the red. The Fund's performance was below that of the UBS and Credit Suisse indices, as the asset allocation of these two indices contained more "defensive" investments (Swiss bonds, unlisted real estate), limiting losses in 2018. Over the last five years, however, the Fund has achieved results comparable to those two indices.

Asset allocation

The table opposite shows the allocation of the Fund's assets as at December 31, 2018. The Fund's monthly rebalancing process enables it to maintain at all times an effective asset allocation close to the strategic allocation to be followed. However, some differences are inevitable, particularly in private equity, where the current rate of new investments does not allow a strategic allocation to be achieved more rapidly (asset allocation of 5.7% as at December 31, 2018 and strategic allocation to be reached of 7%). As a result, this asset class is underweighted, essentially offset by an overweight in bonds (asset allocation of 36.5% as at December 31, 2018 versus strategic allocation of 35%).

Allocation in %

	31.12.2018	31.12.2017	Strategic allocation
Liquidities and short-term investments	2.0	3.4	3.0
Equities	32.6	36.3	33.0
Private equities	5.7	6.1	7.0
Bonds	36.5	33.4	35.0
Swiss real estate	16.3	14.4	15.0
International real estate	6.5	6.1	7.0
Hedge funds	0.3	0.3	0.0
Total	100.0	100.0	100.0



Investment Committee activities

The main activities and decisions of the Investment Committee in 2018 were as follows:

- Complete revision of the investment regulations in order to adapt them to the Fund’s new governance and organization, taking into account in particular the end of Nestlé Capital Advisers’ provision of advisory and service activities to the Fund as of March 31, 2018;
- Definition of a responsible investment policy from an environmental, social and governance (ESG) perspective to encourage investments in companies adopting best practices on issues related to the sustainability of our world. This policy was approved by the Board of Trustees and has been included in the investment regulations since the end of last year (more details on responsible investment can be found in the “Focus” section on page 3 of this annual report);
- Regular monitoring of the Fund’s risk and performance, as well as of all of the Fund’s investment mandates;
- Appointment of PPCmetrics as an external investment consultant who, at the request of the Committee and in close collaboration with the Fund Management, has done important work to improve the controlling and performance monitoring report for our assets;
- Selection of a new unlisted international real estate manager.

During 2018, the major restructuring of the Fund’s investments decided by the Investment Committee in previous years was successfully completed, particularly with regard to cost control. The Fund now essentially comprises low-cost “passive” management (approximately 72% of assets under management). As a result, total wealth management fees decreased from 108 bps in 2016 to 55 bps in 2018 and reflect the benefit of the significant efforts made over the past three years to reduce our costs while maintaining the expected return on our portfolio.

Following these important projects, the Investment Committee will focus on more strategic projects and continue considering opportunities to further optimize the Fund’s risk/return ratio while including ESG criteria and a strict approach to cost management.

In light of this, the Investment Committee validated the following priorities for 2019:

- Conduct an asset-liability management (ALM) study of the Fund to adjust its investment strategy to the nature of its liabilities, if necessary;
- Implement the Fund’s new responsible investment policy, which includes improving the transparency of our investments in this regard;
- Implement the new mandate for unlisted international real estate in an appropriate structure from an operational and tax perspective. This new mandate will enable greater diversification than the Fund’s current exposure to listed real estate, which is highly correlated to the listed equity market.

Conclusion

The Fund posted a disappointing negative performance in 2018, but overall this was in line with the financial markets and other pension funds in Switzerland. The losses in 2018 were mainly due to fears related to a range of macroeconomic factors, including too rapid an increase in interest rates, trade tensions and political uncertainties in Europe. However, the pessimism of 2018 was probably exaggerated, as suggested by the recovery observed in early 2019. Price-to-earnings ratios decreased by 25 to 30% between December 31, 2017 and December 31, 2018. As a result, investor concerns now seem to be factored into share prices, and the risk of a further correction in the financial markets has decreased. We would like to note that while there are concerns of a slowdown in the global economy, there is currently no talk of a recession. Moreover, some economic indicators such as unemployment rates are rather encouraging, even in Europe. These various elements therefore lead us to hope that 2019 will be a year of consolidation.





- 1 Patrick Menoud interpreting the "Ranz des vaches" (1999)
- 2 Coronation of the best "vignerons-tâcherons" (1999)
- 3 Bernard Romanens interpreting the "Ranz des vaches" (1977)
- 4 Coronation of the best "vignerons-tâcherons" (1977)

Funding ratio and actuarial situation

Actuarial situation

In millions of CHF

	31.12.2018	31.12.2017
Available assets	6942.2	7223.0
Liabilities		
Pension reserve for active members	2522.3	2546.0
Pension reserve for pensioners	3971.8	3476.9
Provision for increased life expectancy	23.8	145.9
Provision for death and disability risks	41.3	49.4
Provision for a future reduction in the technical interest rate	0.0	173.6
Total	6559.2	6391.8
Technical surplus		
Investment fluctuation reserve	383.0	831.2
Disposable surplus	0.0	0.0
Total	383.0	831.2
Funding ratio (assets / liabilities)	105.8%	113.0%

Available assets

The available assets are determined by subtracting accrued expenses and employers' contributions reserve from total balance sheet assets (p. 12).

Liabilities

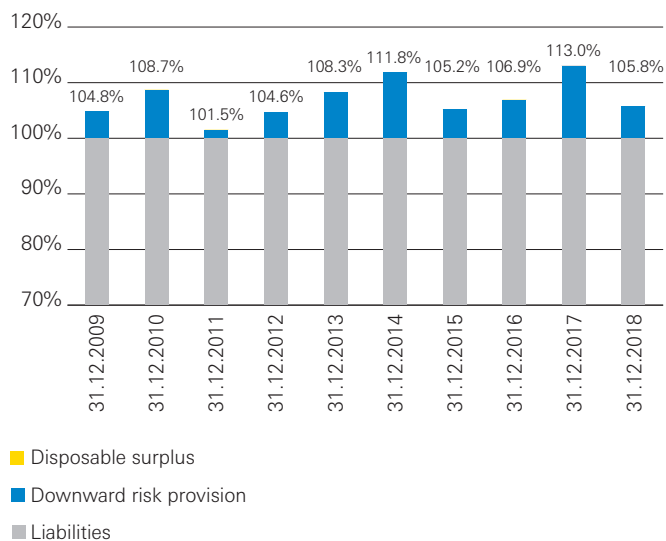
The Fund's liabilities consist of:

- The **pension reserve for active members**, which corresponds to the total of the accrued retirement savings capitals of those members;
- The **pension reserve for pensioners**, which is the total amount necessary to ensure payment of current pensions. These reserves are often defined as mathematical reserves and are calculated from 31 December 2018 using 2015 actuarial tariffs and take into account a technical discount rate of 2.25%;
- The **provision for increased life expectancy**, which has been set up to cover the future costs which the Fund expects to incur due to this trend. This provision is funded by an annual allocation calculated on the pension reserve for pensioners. The Fund has updated the mortality tables to LOB 2015. Therefore this provision has been partly dissolved and amounts to CHF 23.8 million which represents 0.6% of the pension reserve for pensioners as of December 31, 2018;
- The **provision for death and disability risks**, which aims to cover the inevitable fluctuations between the effective costs per benefit claim and its average costs. This provision stood at CHF 41.3 million at 31 December 2018;

- The **provision for a future reduction in the technical interest rate**, which will cover any subsequent increase in liability relating to a potential decrease in the technical interest rate. At 31.12.2017, this provision stood at CHF 173.6 million which represented a reduction of the technical interest rate of 3% to 2.5%. On July 1, 2018, this reserve was released in order to partially finance the reduction of the technical rate from 3.0% to 2.25%, the employer having paid the difference to the Fund.

Funding ratio

On 31 December 2018, the Fund's funding ratio was **105.8%** (compared to 113.0% at the end of 2017). It is calculated by dividing the Fund's available assets by its liabilities, i.e. the sum of pension reserves for active members and for pensioners as well as the technical provisions.



Technical surplus

The technical surplus consists of:

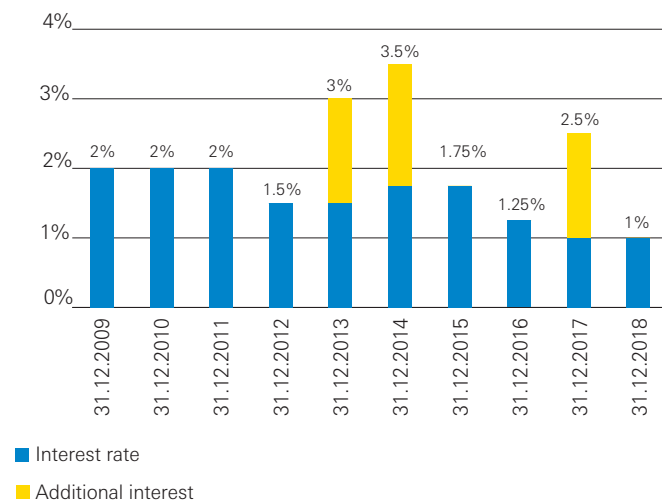
- The **investment fluctuation reserve** which absorbs the inevitable variations in the Fund's investments results. At the end of 2018, the investment fluctuation reserve amounted to CHF 383.0 million, which represents 5.8% of the Fund's total liabilities. As the target of the investment fluctuation reserve is set at 20% of liabilities, the target value was not reached by 31 December 2018. Over the coming years, the Fund will therefore have to generate sufficient performance to build up this provision again.
- **Disposable surplus**. As the investment fluctuation reserve has not yet been filled up, the Fund did not have any disposable surplus at the end of 2018.

Interest payments and adjustment of pensions in payment

Interest payments on retirement savings capital of active insured members

By decision of the Board, the retirement savings capital of active members were credited with the minimum LOB interest of 1% in 2018.

The average annual remuneration paid on savings capital of the active members was 2% over the last five years and 2.05% over the last ten years. This is higher than the average annual remuneration paid according to the minimum rate LOB (1.35% over five years and 1.57% over 10 years).



In %

	2018	2017	2016	2015	2014	5 years	10 years
Interest rate	1.00	1.00	1.25	1.75	1.75	1.35	1.57
Additional interest (31.12)	0.00	1.50	0.00	0.00	1.75	0.65	0.47
Total remuneration	1.00	2.50	1.25	1.75	3.50	2.00	2.05

Adjustment of pensions in payment

The decision to adjust pensions in payment is the responsibility of the Board since the Fund regulations do not provide for these to be systematically indexed to the cost of living, measured by the consumer price index or rate of inflation. This decision is based on a number of parameters, which of course include the rate of inflation, but also the Fund's performance, its financial health (funding ratio) and the principle of fairness between active members and pensioners.

In %

	2018	2017	5 years ¹⁾
Pension adjustment rate (at 1 January of the following year)	0.0	0.0	0.0
Inflation rate	0.7	0.8	(0.19)

1) Inflation between 01.01.2014 and 31.12.2018

As the rate of inflation has been low and at times even negative in recent years, as the Fund does not have disposable surplus, and as fairness between active members and pensioners must be maintained, the Board decided not to adjust pensions in payment on January 1, 2019.

Report of the auditing firm



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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 2018.

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 contrôles 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 2018 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 de 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 21 mai 2019

Annexe :

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



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Nestlé