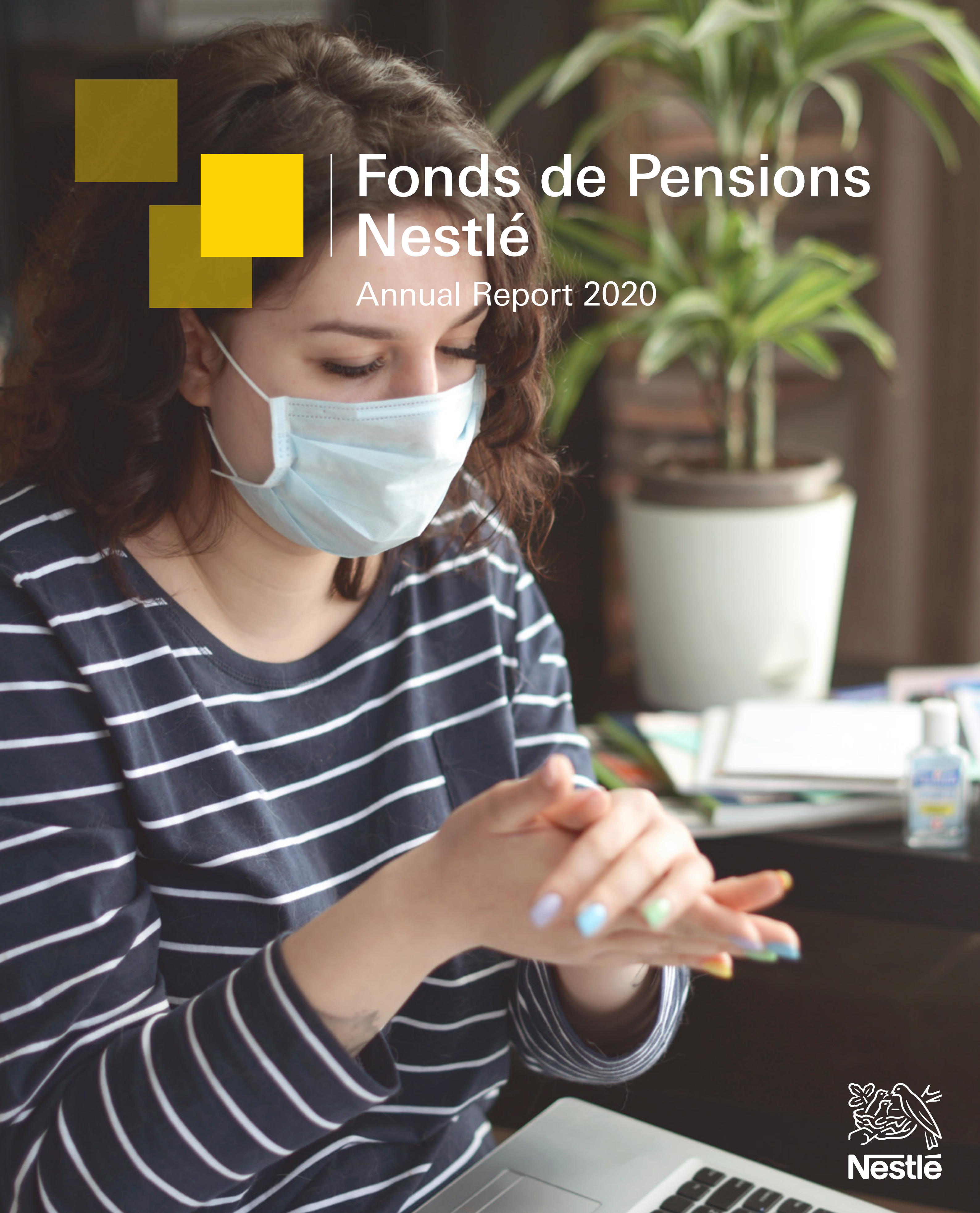
Fonds de Pensions Nestlé

Annual Report 2020



Nestlé

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

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Impressum

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Foreword

Message from the Chairman of the Board of Trustees

On 31 December 2020, the financial situation of the Nestlé Pension Fund (hereinafter “the Fund”) was excellent, with a funding ratio of 118.3% and an almost fully constituted fluctuation reserve. Nevertheless, it is worth noting that 2020 has been far from easy and many uncertainties persist as the end of a year that was marked by the effects of the COVID-19 pandemic. We are concerned that this pandemic may have very significant social, economic and societal repercussions on a global scale.

The performance of the financial markets and that of the Fund fluctuated greatly due to the pandemic, which initially caused stock prices to plummet in March 2020. The reactions of the central banks with massive cash injections and of governments with aid packages to help the economy and individuals, were on an unprecedented scale, easily exceeding anything undertaken in past decades. Boosted by these interventions, the financial markets recovered well, which allowed them to return to, or even improve on, their pre-COVID levels. From the autumn onwards, this upward trend was sustained by the success of new vaccines, giving hope of a quick end to the pandemic. Caution, however, is still called for as the high valuations of financial assets are out of sync with the real state of the economy subjected to extreme stress by successive lockdowns.

Despite new, particularly operational, restrictions related to the pandemic, the Fund has adapted well to this highly unusual environment. The Fund’s management team was able to continue with its daily activities, demonstrating not only its ability to adapt but also the solidity of its technological tools. It has managed to ensure an excellent level of service for active insured members and for those who receive a pension.

The Fund has also continued with its responsible investment policy in 2020, in particular by excluding companies based on environmental, social and governance (“ESG”) criteria. It made calls for bids to renew the mandates of two important external third parties, i.e. its statutory auditor and its accredited pension actuary.

During this extraordinary year, the Fund has proven to be very solid on both a financial level and in its structures and organization. It has thus proven that it has all the instruments necessary to face the complex challenges to come in the short to medium term. This will allow it to face the future with a certain confidence even if it must remain ready to face other major upheavals that will again require a great deal of flexibility.

Peter Vogt
Chairman of the Board of Trustees

Focus – The Fund during the COVID-19 crisis

In these challenging times, the staff responsible for the administration of the Fund have made every effort to ensure that the operational activities involving its management and planning continue as usual, despite the remote working restrictions that have affected most of the Nestlé Group employees since March 2020. In this “Focus” section, we reveal the main effects of the crisis on the Fund and its various activities as well as the solutions developed to deal with them.

Impact on the IT infrastructure

In 2020, even more so than in previous years, technology has continued to grow in importance. Indeed, the various waves of the pandemic and the ensuing lockdowns transformed the IT infrastructure into the sole point of contact between insured members and the Fund administration. Employees were able to work from home under very good conditions while maintaining the efficiency of our processes.

In addition to the key support role that technology plays, we have also been able to devote time to some necessary upgrades, including:

– The redesign of our website www.fpn.ch aimed primarily at simplifying and facilitating its use (improving navigation and compatibility with tablets and other mobile devices) and especially enhancing its relevance for our insured members with the addition of an interactive page explaining the pension certificate.
– The assessment of IT management solutions for pension plans offered by different providers. This review has allowed us to ensure that the solutions currently in place at the level of the Fund can be adjusted in order to respond to technological changes and meet our future needs.

Impact on administration

Thanks to the commitment of the Fund’s employees and the effective use of technological resources provided by Nestlé, the administrative management of our members (membership, contributions and withdrawals, disability, departures and retirements, among other tasks) has continued uninterrupted since the beginning of the pandemic in March 2020. The same is true for the payment of statutory benefits by the Fund including monthly payments for pension recipients. Adjustments had to be made to deal with postal mail, while there has been an increase in email correspondence. As for the individual consultation meetings arranged for members who requested them, most of them could be held by phone, videoconference or email.

Impact on investments

New restrictions concerning investments also had to be managed. Firstly, it was necessary to ensure that all external asset managers could continue to work via the processes in place before the crisis and despite lockdown restrictions. In March 2020, securities transactions (buying/selling) also had to be adjusted to take the higher transaction fees that prevailed at the height of the financial markets crisis into account. Finally, the Fund involved the Investment Committee in the decision to ensure that the strategic allocation process remained unchanged. This decision was explained in detail and with total transparency to the Board of Trustees at the end of March 2020.

Impact on Fund governance and on the functioning of its highest governing body, the Board of Trustees

In exceptional circumstances, the Board of Trustees was nevertheless able to operate and validly execute its role as the highest governing body of the Fund and, in this sense, the crisis only had a limited effect on its operation.

For example, in the awarding process put in place to renew the mandates of the accredited pension actuary and statutory auditor, the Board of Trustees was able to interview and question the final candidates by videoconference but without compromising its decision-making process, which ultimately allowed it to sucessfully award the aforementioned mandates.

Conclusions and prospects

The Fund has been able to adapt to the restrictions imposed by the pandemic. We have also learned important lessons, which will help us contribute to the continuing effort made to improve the Fund’s services.

Organisation (at 31.12.2020)

Board of Trustees

Employer representatives

Peter Vogt, Chairman of the Board, Vevey
Martin Huber, Nestlé Nespresso 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, 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, 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


The
Powered


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HALTEN

Key figures

		31.12.2020	31.12.2019
Funding ratio		118.3%	114.4%
Total of available assets	In millions of CHF	8001.3	7675.5
Liabilities	In millions of CHF	6763.2	6712.0
– Pension reserve for pensioners	In millions of CHF	4023.7	4011.8
– Pension reserve for active members	In millions of CHF	2460.0	2436.6
– Technical provisions	In millions of CHF	279.5	263.6
Investment fluctuation reserve	In millions of CHF	1238.1	963.5
Investments performance		5.3%	14.0%
Asset management costs		0.57%	0.47%
Assets allocation			
– Cash		1.5%	0.9%
– Equities		29.2%	29.3%
– Bonds		40.2%	41.5%
– Real estate		23.0%	23.2%
– Alternative investments		6.1%	5.1%
Interest payments on retirement savings capital		1.0%	2.75%
Technical interest rate		2.25%	2.25%
Mortality tables		LPP 2015	LPP 2015
Total headcount		14626	14734
– Active members		8697	8847
– Pensioners		5929	5887

Overview of the financial year

The financial situation of the Fund

The Fund's performance was up 5.3% in 2020. These results are as welcome as they are unexpected in this extraordinary year marked by the COVID-19 pandemic. Indeed, the strong recovery of the financial markets from mid-March following governments' and central banks' robust action permitted gains that exceeded the high losses of the beginning of the year. Most of the risky assets followed this dynamic, which was particularly noticeable among listed equities.

The Fund's performance in 2020 was, as in 2019, better than that of Swiss pension funds, which was around 4% according to the Credit Suisse and UBS indexes (page 16). It was slightly below that of its strategic benchmark (5.4%), which does not take management fees into account.

The funding ratio, which corresponds to the ratio between the Fund's pension assets available and its pension obligations, is an indicator of its financial health. That of the Fund improved during 2020, rising from 114.4% on December 31, 2019 to 118.3% on December 31, 2020, benefiting from the strong performance of the financial markets over this period. It is noteworthy that among the Fund's obligations, there are also various technical provisions constituted for a total amount of CHF 279.5 million at December 31, 2020.

Board of Trustees decisions

In 2020, the Board of Trustees took the following decisions:

- Not to allocate additional interest on retirement savings capital as of 31 December 2020 and, consequently, to credit only the minimum LPP interest rate of 1%;
- To set the rate of interest on retirement savings capital at 1% for 2021 in line with the decision of the Swiss Federal Council on the LPP minimum interest rate;
- Not to change current pension in payment as of 1 January 2021 in light of the Fund's financial situation and weak inflation in 2020;
- To agree to follow the roadmap proposed by the Fund's management and approved by the Investment Committee to implement exclusions for investments that do not meet the environmental, social and governance (ESG) criteria set by Nestlé Group;
- To agree to buy back all Fonds de Pensions Complémentaire Nestlé shares and liabilities in the "Lungo III" private equities fund;
- To amend annex 1 of the Fund's investment regulations by introducing an allocation band for foreign currency exposure;
- To confirm amendment I to the pension regulations with effect from January 1, 2021 to take account of the revision of the Swiss Federal Law on Supplementary Benefits;
- To entrust Didier Sauteur and Jean Netzer of Aon Suisse SA with the mandate of accredited pension actuary starting from the 2021 financial year;
- To appoint Ernst & Young as statutory auditor starting from the 2021 financial year.

Finally, the Board of Trustees has taken note of the following:

- Adaptation of decision aid rules related to the Fund's surplus participation policy;
- Result of the assessment of the Fund by Nestlé's internal audit department following the analysis carried out in summer 2020.

Invitation to tender for the mandate of accredited pension actuary

In 2020, the Fund called for applications for the mandate of the accredited pension actuary.

Jean-Marc Wanner of Aon Suisse SA, who was the Fund's accredited pension actuary since 2000, has decided to gradually scale down his activities and take a well-earned retirement. It was therefore time to launch a call for applications and put Aon Suisse SA into competition with other recognized service providers as required by best governance practices.

The aim of this exercise was to allow the Board of Trustees to ensure that the accredited pension actuary had the right skills and qualities and to enter into a contract under the best possible conditions.

The Fund's management drafted an exhaustive, explanatory analysis for the members of the Board of Trustees with the aims of this exercise, selection criteria chosen, assessments of the service providers, and their recommendation. Three candidates were shortlisted and invited to present their application to the Board of Trustees so its members could make an informed choice.

The Board of Trustees finally renewed their confidence in Aon Suisse SA, entrusting the mandate of accredited pension acctuary to Didier Sauteur and Jean Netzer. In addition to the undeniable quality of their proposal, they already had in-depth knowledge of the mandate and, above all, the Nestlé environment.

Invitation to tender for the mandate of statutory auditor

In 2020, the Fund also decided to invite applications for the mandate of auditor. The previous appointment had been held by KPMG but the Nestlé Group decided to change its auditing firm and appoint Ernst & Young (EY) starting from the 2020 financial year.

The procedure and objectives of this study were the same as those used for the call for applications for the mandate of accredited pension actuary as it was also the subject of a comprehensive report to the Board of Trustees. The short-listed candidates also had the opportunity to present their respective applications to the members of the Board of Trustees.

The Board of Trustees decided to appoint Ernst & Young as its auditor starting from the 2021 financial year. This choice will provide a fresh viewpoint on the Fund while benefiting from a perfect synergy with the Nestlé environment.

Principles for preparing condensed financial statements

This annual report is made up of a condensed balance sheet, operating account and annex. In the condensed balance sheet and condensed operating account, some individual positions have been grouped with the corresponding main positions. The condensed annex contains specific information relating to the Foundation's bodies, the funding ratio, the composition of the investments and the net result of investments. This information is partially presented in graphic form.

Balance sheet

In millions of CHF	2020	2019
Assets		
Investments	8070.7	7708.6
Cash and short-term investments	121.6	70.8
Equities	2357.4	2258.8
Private equities	472.1	373.5
Bonds	3247.6	3200.8
Swiss real estate	1394.6	1277.8
International real estate	460.7	507.7
Hedge funds	16.7	19.2
Accrued income	100.4	110.9
Assets and receivables	71.6	80.1
Employer participation	28.7	30.6
Prepayments and accrued income	0.1	0.2
Assets: grand total	**8171.1**	**7819.5**
Liabilities		
Accrued expenses	113.7	88.1
Vested benefits and pensions	68.7	80.2
Other payables	14.9	6.9
Accrued expenses and deferred income	30.1	1.0
Employers' contributions reserve	56.1	55.9
Pension reserves and technical provision	6763.2	6712.0
Pension reserve for active members	2460.0	2436.6
Pension reserve for pensioners	4023.7	4011.8
Provision for increased life expectancy	72.4	48.2
Provision for death and disability risks	32.1	40.4
Provision for a future reduction in the technical interest rate	175.0	175.0
Investment fluctuation reserve	1238.1	963.5
Disposable surplus	0.0	0.0
Liabilities: grand total	**8171.1**	**7819.5**

Income statement

In millions of CHF	2020	2019
Ordinary and other contributions	340.5	362.3
Employers' contributions	142.1	152.7
Withdrawal from the employer's contribution reserve	(2.7)	0.0
Supplementary employer contributions	28.3	29.8
Members' contributions	82.4	89.1
Single premiums and voluntary purchase	90.3	90.6
Subsidies from Guarantee Fund	0.1	0.1
Vested benefits from other institutions	98.1	107.1
Vested benefits rolled over from other institutions	23.0	32.5
Refunds of early withdrawals for home ownership and divorce	6.0	5.2
Reserve transfers from other Nestlé Funds + Swiss	4.1	8.2
Transfer from the Fonds de Pensions Complémentaire Nestlé (retirees)	65.0	61.2
Contributions and vested benefits from other institutions	**438.6**	**469.4**
Statutory benefits paid out	(338.9)	(323.6)
Statutory pensions	(309.3)	(306.0)
Lump sums and one-time allowances	(29.6)	(17.6)
Non-statutory benefits	(0.2)	(0.2)
Voluntary pensions – non-statutory	(0.2)	(0.2)
Vested benefits and early withdrawals	(179.3)	(366.8)
Vested benefits rolled over to other institutions	(148.3)	(333.2)
Benefits paid following partial liquidation	(8.0)	(4.9)
Early withdrawals for home ownership and divorce	(9.3)	(14.1)
Return to the Fonds de Pensions Complémentaire Nestlé	(13.7)	(14.6)
Expenses relating to benefits and early withdrawals	**(518.4)**	**(690.6)**
Dissolution (constitution) of pension reserves, technical provisions and contributions reserves	(51.4)	(156.5)
Pension reserve for active members	0.0	147.8
Provision reserve for pensioners	(11.7)	(40.1)
Provision for increased life expectancy	(24.3)	(24.3)
Provision for death and disability risks	8.3	0.91
Provision for a future reduction in the technical interest rate	0.0	(175.0)
Remuneration of savings capital	(23.5)	(62.0)
Employers contributions reserve	(0.2)	(3.8)
Insurance expenses – contributions to guarantee fund	(0.9)	(0.9)
Net income from insurance activity	**(132.1)**	**(378.6)**
Net investment income	409.6	(962.4)
Gross return on investments	453.0	(998.5)
Asset management fees	(43.4)	(36.1)
Other income	0.1	0.1
Other expenses	(0.5)	(0.6)
General administration costs	(2.5)	(2.8)
Balance of income (expenses) before additions to (releases from) investment fluctuation reserve	**274.6**	**580.5**
Dissolution / (constitution) of investment fluctuation reserve	(274.6)	(580.5)
Balance of income (losses)	**0**	**0**

Investments

2020 in review

Until 19 February 2020, most financial valuations continued to rise and few observers expected that an epidemic – serious but at that time still limited to China – would turn into a major pandemic on a global scale. The lockdowns imposed to prevent the spread of the virus forced millions into unemployment and paralyzed many sectors of the economy while pushing many companies to the brink of bankruptcy. This collapse in activity dragged the global economy into the worst recession in recent decades, leading to a drop in stock prices similar to that seen in the great crises of the past (2008, 2002, 1987 and 1929).

Central banks and governments had to react quickly to avoid the worst consequences of the "Great Lockdown". Several of them significantly lowered their key rates and/or decided to massively increase money supply to ensure sufficient liquidity. As for world governments, most of them also decided to allocate extraordinary budgets to fund emergency economic aid packages, particularly through business loans and better unemployment insurance. This reaction greatly encouraged investors who counted on a quick way out of the economic crisis. The financial markets bounced back between the end of March and the end of August, also boosted by the weakening of the pandemic and lockdown easing in many countries.

September and October, however, saw a pause in the rise of valuations. The pandemic, that we had hoped was under control, hit back to varying degrees across the world following the easing of lockdown restrictions in the summer. Faced with this second wave, some countries opted for less restrictive lockdowns, endangering the real economy's hesitant recovery. At the same time, a "second wave" of economic support measures became necessary to deal with the second wave of the pandemic and take over from the initial measures launched at the beginning of the year.

At the end of the year, despite doubts remaining as to whether the timid economic recovery would continue, stock prices began to climb again reaching record highs due to a combination of favorable events. Firstly, there was the result of the American presidential election and Joe Biden's victory, which promised renewed political and economic stability. Then, major advances in vaccine development by the pharmaceutical industry provided hope of a gradual exit from the pandemic from 2021 onward. Finally, in December, new and eagerly awaited support measures for the economy in the US and Europe were finalized following political compromises obtained after many months of negotiation.

In short, 2020 will remain marked by this extreme divergence between the spectacular rise of financial markets between April and December and the more worrying state of the real economy, paralyzed by the various phases of lockdown. Two factors explain this discrepancy:

- On one hand, the financial markets largely benefited from the economic aid measures deployed by governments and central banks throughout the year. This avalanche of liquidity far exceeded anything that had been achieved in the past, including bank bailouts in 2008. In 2020, almost all the new debt issued by the governments of the United States and the countries of the European Union was repurchased by the central banks, highlighting a concerted approach but evoking, far more than in previous years, the idea of printing money.

The action of the central banks was an almost direct response to the steep rise in state budgets to deal with the pandemic.

– On the other hand, investors were essentially concentrating on the scenario of a fast return to a "pre-COVID" world thanks to the mass vaccination campaigns that had begun in many countries. This scenario remains possible but risks being delayed by the second or even third wave of the pandemic, new strains of the virus and the partial or full return to lockdown. Furthermore, the vaccination rate in many countries does not appear to be growing as quickly as initially expected.

So uncertainty remains very high at a time when stock prices are still breaking new records.

Performance of the Fund

Thanks in particular to the massive monetary and budgetary recovery packages deployed by central banks and governments in response to the COVID-19 pandemic, the stock markets bounced back quickly from their slump of the first quarter of 2020, allowing the Fund to return 5.3% (net of fees) for the year.

All asset classes made a positive contribution to the performance of the Fund as shown in the following table. Most of the 5.3% yearly return came from listed equities (4.3% contribution) despite their first quarter loss of more than 30%. Only currency effects due to uncovered foreign currency contributed negatively (-1.4%) due to the strong depreciation of the US dollar compared to the Swiss franc (-8.4% over the year).

Main contributors to performance in 2020

Performance in %

	2020	2019
Equities	4.3	7.3
Bonds	1.8	2.1
Real estate	0.7	3.0
Private equities	0.6	0.5
Currency effects	(1.4)	0.3

Comparison of the Fund's performance

Performance in %

	1 year	3 years 1)	5 years 1)	10 years 1)
Fund	**5.3**	**5.0**	**6.0**	**4.3**
Fund Strategic asset allocation 2)	5.4	5.0	6.1	4.3
Credit Suisse Swiss Pension Fund Index 3)	3.7	3.5	4.3	4.0
UBS Swiss Pension Fund Index 3)	4.0	3.8	4.6	–

1) annualized
2) This is the only index for which we indicate gross of fees performances.
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 at 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 310 pension funds (audited annual accounts for 2019).

The main measure of the quality of the Fund's relative performance is the comparison of its performance with that of its strategic benchmark, which was of 5.4% in 2020. The Fund slightly underperformed its strategic benchmark by 0.1%. This result is still very reasonable as the latter's performance does not include fees, unlike the one of the Fund. The elements that have contributed to adding value are:

– The strong performance of the Swiss real estate market, which outperformed its benchmark index;
– The overweighting of listed equities, which aimed to offset the structural underweighting of private equities.

In assessing the Fund's performance relative to its peers, i.e. other pension funds in Switzerland, we use the two indexes calculated by UBS and Credit Suisse (the definitions given in the notes to the table above provide more information). In 2020, the performance of these two representative indexes was also positive but significantly less so than that of the Fund. This gap can be explained by the Fund's superior performance in bonds following overweighting of the corporate debt segment, which performed best in 2020. The Fund also achieved better performance in listed equities thanks to a weaker domestic bias when Swiss equities performed less well than those of the rest of the world.

Finally, it should be noted that the Fund also outperformed the two indexes over longer periods (three, five and ten years), which are much more relevant for such comparisons.

Asset allocation

The table below presents the effective allocations of the Fund's financial assets on December 31, 2020. A monthly rebalancing process for the Fund's investments allows the effective allocation to remain close to the strategic allocations (last column of the table). Discrepancies are, however, inevitable due to the natural financial market fluctuations.

Allocation in %

	Effective allocation	Strategic allocation
Liquidities and short-term investments	1.5	2.0
Equities	29.2	27.0
Private equities	5.9	7.0
Bonds	40.2	41.0
Swiss real estate	17.3	16.0
International real estate	5.7	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.

Asset management fees

Asset management fees cover all the fees paid by the Fund related to the day-to-day management of its investments. They include:

- Asset management charges including collective investment fees paid indirectly by the Fund;
- Transaction and tax fees such as Swiss stamp duty;
- Other fees including costs related to advice and the custodian bank, as well as internal costs (salaries, IT etc.) related to asset management.

In 2020, asset management fees stood at 0.57% and are higher than those recorded in 2019 (0.47%). This rise is mainly due to the following factors:

- The increase in the allocation to alternative investments, which are costly. This increase should continue in 2021 as this allocation remains below its strategic target;
- Fees related to the launch in 2020 of a new investment program in private equities and of a new unlisted international real estate funds.

Responsible investments

The Fund has a responsible investment policy aimed at supporting more sustainable performance and a better management of the inherent investment-related risks. It was designed in conjunction with the Nestlé Group Pension Unit and is based on four core areas.

1. First, in terms of investment strategy it considers environmental, social and governance (ESG) principles in addition to the usual financial elements of yield, risk and cost for the Fund's investments;
2. Then, this ESG investment strategy must be applied by integrating ESG-type elements in the selection of external asset managers;
3. Once these two steps are complete, we must ensure regular, strict monitoring of ESG factors in our investments;
4. Finally, we must communicate regularly on our responsible investment commitments.

In 2020, two strategic initiatives were launched in relation to the first two areas of the Fund's responsible investment policy explained above.

The first is the approval by the Board of Trustees in November 2020 to implement the exclusion of companies in which the Fund has invested (through the management mandates it granted to external asset managers) and which are related to the following principles:

- Exclusions related to controversial weapons: cluster bombs, landmines, chemical and biological weapons etc.;
- Exclusions related to breaches of the principles of the UN Global Compact: human rights, workers' rights, corruption etc.;
- Exclusions related to coal: coal mining or coal-fired electricity production.

These exclusions are already in place in more than 80% of the management mandates concerned; the rest are undergoing analysis.

The second is the explicit consideration of ESG criteria in the new investment program in private equities launched in 2020.

Then, as the Fund's assets are wholly invested through external asset managers, the latter must be closely monitored, not only on the financial component but also according to ESG criteria. An ESG report has been prepared in collaboration with consultants. This phase, which is part of the third pillar of the Fund's responsible investment policy, consists of an ESG assessment:

- of external asset managers, on the one hand, to ascertain whether they comply with the Fund's responsible investment policy and, on the other hand, to have an independent view of their work in terms of ESG criteria. If the results are deemed insufficient, a discussion will take place with the external asset managers to encourage them to improve.
- of the Fund's overall investment portfolio held by external asset managers, which aims to draw up a list of companies subject to ESG risks. This list is then used to request transparency on voting rights and shareholder commitment on ESG risks from the companies in question. In the future, implementing the exclusions described above should greatly contribute to reducing the number of companies subject to ESG risks retained by the Fund.

Finally, and to satisfy the communication requirement that is part of the Fund's responsible investment policy, this new section on responsible investments was created in 2019 in the investments section of the annual report to regularly inform the Fund's insured members about the steps taken concerning ESG principles.

To conclude, we must remember that the ESG investment area is constantly evolving and that the Fund's current developments are not the end of the road, they must be continually adjusted.

Activities of the Investment Committee

In 2020, the main activities and decisions of the Investment Committee were as follows:

- More intense monitoring of the Fund's investments since the beginning of the COVID-19 crisis including two extra sessions. During this period, notable for increased volatility on the financial markets, and on the recommendation of the Fund's management, the Investment Committee decided to continue following the Fund's investment strategy. Consequently, and following the drop in the Fund's equity exposure during this period, we have followed our rebalancing policy, which required equity purchases at the end of March to realign effective allocation with strategic allocation. This decision turned out to be beneficial following the strong recovery of equity markets that ensued;
- Approval of the launch of a new investment program in private equity, for a commitment of USD 445 million, which will contribute to reach the strategic allocation of 7% in this asset class;
- The creation of a new ESG report for the financial asset portfolio held by the Fund to better assess the Fund's exposure to companies subject to ESG risks and initiate dialogue with external asset managers who are exposed;
- The formulation of a proposal to the Board of Trustees for the implementation of investment exclusions in companies linked to controversial weapons or coal or who do not comply with the principles of the UN Global Compact. The latter was approved by the Board of Trustees at its meeting in November 2020;
- The decision to increase the unlisted Swiss real estate segment to 75% compared to 50% today. The unlisted segment allows the same expected yield to be reached as the listed segment but with less volatility since holding a listed real estate segment of 25% will be sufficient to cover the Fund's various liquidity constraints;
- The decision to replace the asset manager with a mandate on the debt of emerging countries as the results of this mandate were below expectations.

In the uncertain environment we find ourselves in, the Investment Committee will continue its work to improve the effectiveness of its investment strategy on the usual pillars of risk, yield, cost and ESG criteria. It therefore validated the following priorities for 2021:

- Integration of the infrastructure asset class into the Fund's strategic allocation;
- The review of unlisted Swiss real estate investment opportunities to reach a target of 75% of unlisted investments in the asset class;
- Implementation of the ESG exclusions approved by the Board of Trustees in the mandates in question and continuation of the ESG monitoring of all of the Fund's investments;
- Development of specific reporting on the characteristics of investments in unlisted equities to better assess the performance of the Fund in this asset category.

Conclusion

The Funds strong performance in 2020 contrasts with the events related to the COVID-19 pandemic and their consequences on the real economy. Even though a return to normal in the short term remains possible thanks to mass worldwide vaccination campaigns, we must continue to be patient and prudent in the strategic management of the Fund. We must also redouble our efforts to find new sources of return, such as our project on the potential integration of infrastructure in strategic allocation.


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Funding ratio and actuarial situation

Actuarial situation

In millions of CHF

	31.12.2020	31.12.2019
Available assets	**8 001.3**	**7 675.5**
Liabilities		
Pension reserve for active members	2 460.0	2 436.6
Pension reserve for pensioners	4 023.7	4 011.8
Provision for increased life expectancy	72.4	48.2
Provision for death and disability risks	32.1	40.4
Provision for a future reduction in the technical interest rate	175.0	175.0
Total	**6 763.2**	**6 712.0**
Technical surplus		
Investment fluctuation reserve	1 238.1	963.5
Disposable surplus	0.0	0.0
Total	**1 238.1**	**963.5**
Funding ratio (assets / liabilities)	**118.3%**	**114.4%**

Total availaible assets

The available assets used for calculating the funding ratio is obtained by subtracting debts, accrued expenses and deferred income, as well as employer contribution reserves (page 12) from total balance sheet assets.

Commitments

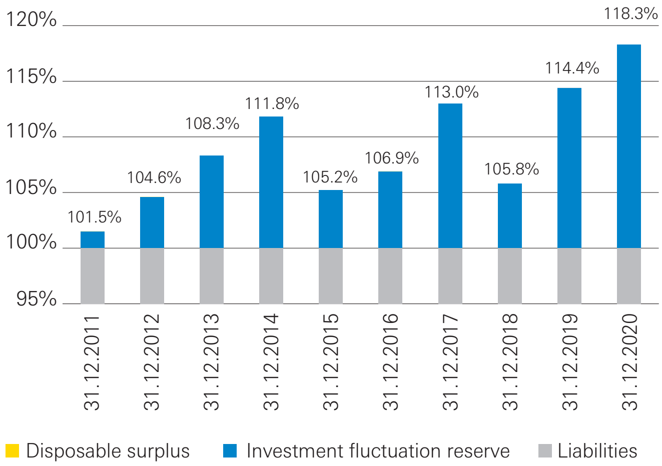
The Fund's liabilities are composed of:

- The **pension reserve for active members**, which corresponds to the pension reserve for active members;
- The **pension reserve for pensioners**, which corresponds to the reserves to cover current pension in payments. Since December 31, 2018, it has been calculated using the LPP 2015 actuarial tariffs, taking into account a technical interest rate of 2.25%;
- The **provision for increasing longevity**, intended to cover the costs related to longer life expectancy of pensioners, allowing the introduction of new actuarial tariffs. This provision amounts to 1.8% of the pension reserve of pensioners as of December 31, 2020 or CHF 72.4 million;
- The **provision for death and disability risks**, which aims to cover the fluctuations between the effective cost of the benefits for death and disability recorded during the year under review and the expected average cost. This provision stood at CHF 32.1 million on 31 December 2020;
- The **provision for a future reduction in the technical interest rate** which is used to cover the resulting estimated cost of a potential reduction in the technical interest rate. This provision stood at CHF 175 million on December 31, 2020. This amount corresponds approximately to the cost of a reduction of 0.25% of the technical interest rate, which is currently at 2.25%, and was set by agreement with the accredited pension actuary.

The provisions are established in accordance with the regulations on technical provisions and investment fluctuation reserve.

Funding ratio

On December 31, 2020, the funding ratio of the Fund was 118.3% (114.4% on December 31, 2019). It is the ratio between its pension assets and its pension liabilities. These are made up of the pension reserves of the active members and of the pensioners, as well as technical provisions.



Investment fluctuation reserve

The investment fluctuation reserve absorbs the variations in the Fund's investment results. On December 31, 2020 it stood at CHF 1 238.1 million, which corresponds to 18.3% of the Fund's total pension liabilities (14.4% on December 31, 2019). The investment fluctuation reserve had not reached its target amount, set at 20% of its liabilities, by December 31, 2020. It is important to remember that as long as the investment fluctuation reserve has not been fully constituted, the Fund must allocate future surplus assets to this reserve.

Disposable surplus

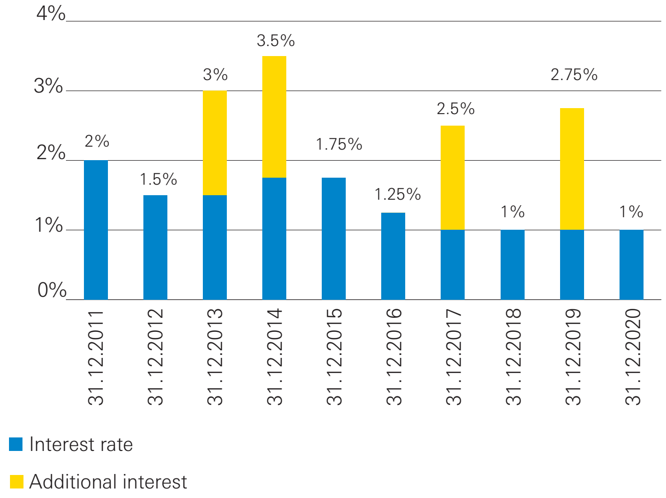
The Fund had no disposable surplus on December 31, 2020 as the investment fluctuation reserve had not been constituted.

Interest payments and adjustment of pensions in payment

Payment of interest on retirement savings capital of active members

Following a decision of the Board of Trustees, the retirement savings capital of active members was credited with interest at the minimum rate of 1% in 2020, without additional interest.

The average annual interest rate on retirement savings capital was 1.70% over the past five years (2.02% over the past ten years). It remains slightly higher than the annual average remuneration according to the minimum LPP interest rate (1.05% over five years and 1.37% over ten years).



In %

	2020	2019	2018	2017	2016	5 years	10 years
Interest rate	1.00	1.00	1.00	1.00	1.25	1.05	1.37
Additional interest (31.12)	0.00	1.75	0.00	1.50	0.00	0.65	0.65
Total remuneration	1.00	2.75	1.00	2.50	1.25	1.70	2.02

Adjustement of pensions

According to the statutory and legal provisions, every year the Board of Trustees must adopt a position on the adjustment of current pensions in payment. It must take into account various parameters including the inflation rate, the Fund's performance, its financial health as well as the principle of equity between the active insured members and the pensioners.

The Board of Trustees decided not to adjust current pensions on January 1, 2021, mainly because inflation rates in recent years have been close to 0% and also because the Fund had not fully constituted its investment fluctuation reserve.

In %

	2020	2019	5 Years [1]
Pension adjustment rate (on January 1 of the following year)	0.0	0.0	0.0
Inflation rate	(0.5)	0.2	0.25

1) Inflation between 01.01.2015 and 31.12.2020

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FONDS DE PENSIONS NESTLE (Fondation Edouard Muller), Vevey

Rapport de l'organe de révision sur les comptes condensés
Comptes annuels 2020

Rapport de l'organe de révision sur les comptes condensés au Conseil de fondation du FONDS DE PENSIONS NESTLE (Fondation Edouard Muller), Vevey

Les comptes condensés – comprenant le bilan condensé au 31 décembre 2020, le compte d'exploitation condensé et l'annexe condensée pour l'exercice arrêté à cette même date sont dérivés des comptes annuels audités du FONDS DE PENSIONS NESTLE (Fondation Edouard Muller) pour l'exercice arrêté au 31 décembre 2020. Dans notre rapport daté du 18 mai 2021, nous avons émis une opinion non modifiée sur ces comptes annuels et sur les autres objets d'audit mentionnés à l'art. 52c al. 1 LPP et à l'art. 35 OPP 2.

Les comptes condensés ne contiennent pas toutes les informations devant être présentées dans les comptes annuels conformément à la loi suisse, à l'acte de fondation et aux règlements. Par conséquent, la lecture des comptes condensés ne saurait se substituer à celle des comptes annuels audités du FONDS DE PENSIONS NESTLE (Fondation Edouard Muller).

Responsabilité du Conseil de fondation pour les comptes condensés
La responsabilité de l'établissement d'une version condensée des comptes annuels audités sur la base des principes décrits dans la note « *Principes d'établissement des comptes condensés* » en page 11 du rapport annuel, incombe au Conseil de fondation.

Responsabilité de l'expert en matière de prévoyance professionnelle
La responsabilité de l'expert en matière de prévoyance professionnelle est fixée à l'art. 52e al. 1 LPP en relation avec l'art. 48 OPP 2.

Responsabilité de l'organe de révision
Notre responsabilité consiste à exprimer une opinion sur les comptes condensés sur la base des procédures que nous avons mises en œuvre conformément à la Norme d'audit suisse (NAS) 810 « Missions ayant pour but d'émettre un rapport sur des états financiers résumés ».

Opinion d'audit
Selon notre appréciation, les comptes condensés dérivés des comptes annuels audités du FONDS DE PENSIONS NESTLE (Fondation Edouard Muller) pour l'exercice arrêté au 31 décembre 2020 sont cohérents, dans tous leurs aspects significatifs, avec ces comptes annuels, conformément aux principes décrits dans la note « *Principes d'établissement des comptes condensés* » en page 11 du rapport annuel.

KPMG SA

Jean-Marc Wicki	Eliane Fischer
Expert-réviseur agréé	Expert-réviseur agréée

Lausanne, le 18 mai 2021

Fonds de Pensions
Nestlé

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