Fonds de Pensions Nestlé

Annual Report 2022

FONDS DE PENSIONS NESTLÉ
75TH ANNIVERSARY


TROUSSEAUX
NESTLÉ
les bébés nestlé

Contents

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

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Foreword

Message from the Chair of the Pension Board

After benefiting from highly favourable financial market conditions and achieving excellent returns in 2021, the Nestlé Pension Fund (hereinafter the "Fund") had a much less positive year in 2022, as did all of its peers. Last year brought significant declines in almost all of the asset classes in which we invest, against a difficult economic backdrop that included sharp rises in interest rates and inflation. However, the investment fluctuation reserve – whose purpose is precisely to offset stockmarket fluctuations and which was at its target level of 20% of the Fund's pension liabilities at the end of 2021 – allowed us to cover losses arising from negative financial market performance in 2022, and to report a satisfactory funded status of 108.3% at 31 December 2022.

Given the Fund's 13.6% negative return in 2022 and its financial position at the end of the year, the Board of Trustees decided not to allocate any additional interest – over and above the LPP/BVG minimum of 1% – to the retirement savings capital of the Fund's active members insured with the Fund at 31 December 2022, and not to adjust pensions in payment on 1 January 2023.

As previously mentioned, results in 2022 contrasted sharply with those achieved the previous year. 2021 was a particularly good year, both for the Fund, enabling it to improve and strengthen its financial position, and for active members and pensioners, who benefited from additional interest and a special, one-off lump sum payment. The difference in performance from one year to the next, mainly caused by differences in returns achieved in the financial markets, underlines the need for the Fund to adopt a long-term investment strategy that can deliver the defined necessary returns to honour its liabilities to members.

As regards sustainability, the Fund adopted its responsible investing charter in 2018 and its Investment Committee and Management continued their efforts in 2022. For example, we analysed the expected financial impact of climate change on our portfolio of financial assets according to various scenarios. We provide more details on this topic in the "Responsible investing" section of this annual report.

In September 2022, the Swiss people voted in favour of reforming the AVS/AHV pension system, including an increase in the retirement age for women from 64 to 65. The new act will come into force on 1 January 2024. In 2023, the Pension Board will look carefully at how this reform could affect the Fund, although the consequences are expected to be limited given the flexibility that our members already have in terms of when they take retirement.

At the time of writing in 2023, our Fund is celebrating its 75th birthday: the "Fonds de Pensions Suisse des Ouvriers Nestlé" and the "Fonds de Pensions Suisse des employés Nestlé" – the ancestors of the Nestlé Pension Fund in its current form – were set up in 1948.

It was therefore 75 years ago that Nestlé laid the foundations for a solid, generous occupational benefits system, making long-term provisions designed to guarantee benefits for its employees when they retire and for their beneficiaries in the event of their death. Nestlé was a trail-blazer, because it was not until nearly 40 years after the Nestlé Pension Fund was set up that the occupational pension system became mandatory for employers with the Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (BVG/LPP), which came into force on 1 January 1985.

Since the Fund was founded in 1948, it has obviously changed: we have followed the development of Nestlé itself and frequently adjusted the way we operate, the benefits we offer and the way we fund them, in order to respond to the series of challenges posed by social, demographic and economic changes. At each milestone in the Fund's history, those in charge of it have been guided by the need to take a long-term view. Accordingly, the Fund's 75th anniversary in 2023 is not just an opportunity to emphasise its longevity, but also to thank everyone who has helped it to develop over all those years, ensuring that the Fund still has the same spirit and commitment to providing benefits to Nestlé's employees that it had when it was set up in 1948. .

Peter Vogt
Chair of the Pension Board

Organisation (on 31 December 2022)

Pension Board

Employer representatives

Peter Vogt, Président, Nestlé SA, Vevey
Sonia Studer, Nestlé Suisse SA, Vevey
Michèle Monique Burger, Nestlé SA, Vevey
Gian Paolo Chiaia, Nestlé Suisse SA, Vevey
(until 30.06.2022)
Valérie Krattinger, Nestlé Suisse SA, Vevey
(from 01.07.2022)
Mathieu Rieder, Société des Produits Nestlé SA, Vevey
Hilary Markea Halper, Nestlé Nespresso SA, Vevey
(until 30.06.2022)
Manuela Krampulz, Nestlé Nespresso SA, Vevey
(from 01.07.2022)

Member representatives

Marcel Baumgartner, Société des Produits Nestlé SA, Vevey
(until 30.06.2022)
Corinne Bonaccorsi, Société des Produits Nestlé SA, Vevey
(from 01.07.2022)
Frank Koch, Nestlé Suisse SA, Konolfingen
(until 30.06.2022)
Isabelle Guignard, Nestlé Suisse SA, Vevey
(from 01.07.2022)
Marc-André Zingre, Société des Produits Nestlé SA, Vevey
Beat Hess, Nestlé Suisse SA, Vevey
Dominique Rovero, Nestlé Nespresso SA, Avenches
Oriane Seydoux, Société des Produits Nestlé SA, Vevey

Pensioners' representative, in an advisory capacity

Martin Suter, Montreux

Investment Committee

Employer representatives

Mathieu Rieder, Président,
Société des Produits Nestlé SA, Vevey
Gian Paolo Chiaia, Nestlé Suisse SA, Vevey
(until 30.06.2022)
Valérie Krattinger, Nestlé Suisse SA, Vevey
(from 01.07.2022)

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

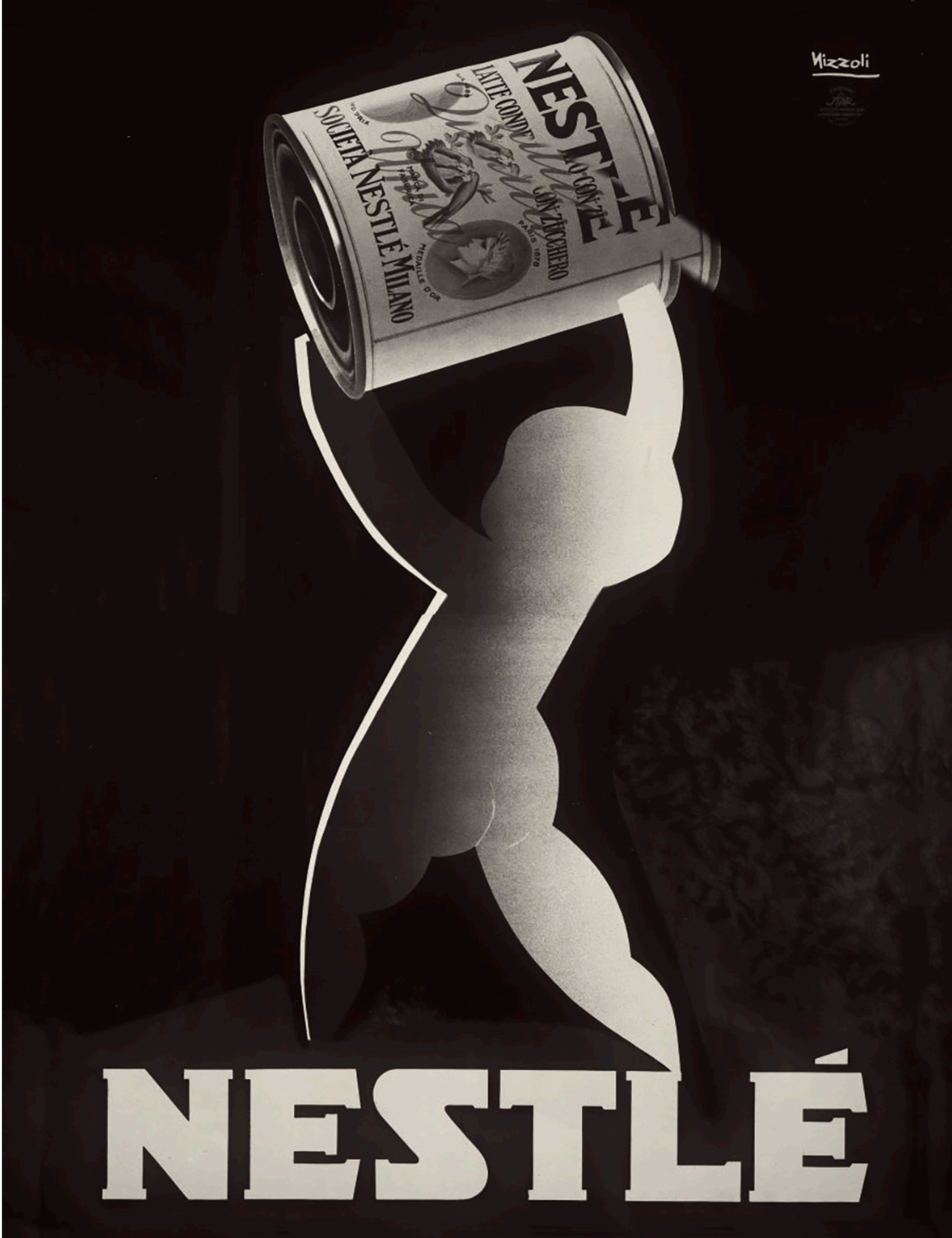
Didier Sauteur, Aon Suisse SA, Nyon

Investment advisor

PPCmetrics SA, Nyon

Auditors

Ernst&Young SA, Lausanne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MEDAILLE D'OR
PARIS 1878
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Key figures

	In millions of CHF	31.12.2022	31.12.2021
Funded status		108.3%	127.4%
Available assets		7 383.6	8 730.2
Liabilities		6 818.1	6 853.9
– Pensioners' liabilities		3 989.4	4 046.2
– Active members' liabilities		2 605.2	2 600.7
– Actuarial provisions		223.5	207.0
Investment fluctuation reserve		565.5	1 370.8
Non-committed funds		0.0	505.5
Investment performance (net of costs)		-13.6%	10.2%
Asset management fees		0.49%	0.79%
Asset allocation			
– Cash and cash equivalents		1.5%	1.4%
– Bonds		39.7%	39.8%
– Equities		25.3%	26.9%
– Real estate		22.6%	23.2%
– Infrastructure		0.4%	0.0%
– Alternative investments		10.5%	8.7%
Interest rate on retirement savings accounts		1%	4%
Discount rate		2%	2%
Actuarial tables		LPP 2020	LPP 2020
Headcount		14 320	14 654
– Of which active members		8 404	8 715
– Of which pensioners		5 916	5 939

2022 financial year

Financial situation of the Fund

The majority of asset classes posted negative returns in 2022, with bonds suffering losses not seen since the seventies. Surging inflation and the monetary tightening response of most central banks weighed on valuations and dampened economic activity, increasing the risk of a recession.

Against this backdrop, the Fund's performance was down 13.6%. Admittedly this was slightly above its strategic benchmark, which fell by 14.5%, but it was below the average for Swiss occupational benefits institutions (our peers), which according to the Credit Suisse and UBS indices declined by around 10%. The Fund's underperformance in 2022 was mainly due to its riskier asset allocation relative to its peers. However, viewed from a historical perspective, we outperform our peers over the longer term.

The funded status, which corresponds to the ratio between an occupational benefits institution's available pension assets and its liabilities, is an indicator of its financial health. Our funded status declined from 127.4% at 31 December 2021 to 108.3% at 31 December 2022, impacted by the negative returns in financial markets in 2022. However, the Fund is still in a healthy position and is able to meet its obligations.

Renewal of the Pension Board

The Pension Board is the Fund's highest governing body. It is composed of twelve members, comprising six employer and six employee representatives. These members are joined by twelve alternates who may be called on to replace a member who is absent or resigns.

Members and alternates hold office for a term of four years, and this expired on 30 June 2022. Accordingly, a call for candidates was issued to renew employee representatives and alternates, while the employer representatives were appointed directly by the employers.

The new Pension Board (see p. 4) took office on 1 July 2022 and will serve for the next four years. It unanimously re-elected Mr Peter Vogt as its Chair.

Resolutions of the Pension Board

In 2022, the Pension Board passed the following key resolutions:

- Not to allocate additional interest on retirement savings capital at 31 December 2022 to supplement the LPP/BVG minimum rate of 1%, credited during the year.
- To set the interest rate on retirement savings capital at 1% for 2023, in line with the Federal Council decision on the minimum LPP/BVG interest rate;
- Not to adjust pensions in payment at 1 January 2023, particularly in view of the Fund's financial situation.
- To adopt a number of minor regulatory amendments to bring the Fund's regulations into line with the new sections of the law.

Finally, the Pension Board reviewed:

- The actuarial report at 31 December 2021, prepared by Mr Didier Sauteur of Aon Suisse SA, the Fund's accredited pension actuary;
- The results of the analysis of the impact of climate change on the Fund's investments.

Actuarial report at 31 December 2021

In accordance with legal requirements and in keeping with the code of conduct and technical guidelines of the Swiss Chamber of Pension Actuaries and the Occupational Pension Supervisory Commission, the accredited pension actuary must periodically conduct a review of the occupational benefits institution.

Accordingly, Mr Didier Sauteur of Aon Suisse SA, the Fund's accredited pension actuary, prepared an actuarial report in which he examined the Fund's financial situation and its funding at 31 December 2021. He certified that:

- The actuarial tables used (the LPP/BVG 2020) and the discount rate of 2% are appropriate;
- At 31 December 2021, the Fund offered the assurance that it can meet its regulatory obligations;
- The actuarial regulations on benefits and funding comply with legal requirements;
- The measures taken to cover actuarial risks are adequate;
- The target value of the investment fluctuation reserve is appropriate.

He also reported that the Fund had no sources of structural deficit and that expected investment returns covered the minimum required returns by a sufficient margin.


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Balance sheet

In millions of CHF

	2022	2021
Assets		
Investments	7439.7	8792.9
Cash and short-term investments	110.1	120.6
Bonds	2953.8	3500.9
Equities	1879.6	2364.6
Swiss real estate	1323.1	1409.6
International real estate	355.4	634.2
Infrastructure	31.9	0
Private equity	768.6	745.6
Hedge funds	17.2	17.4
Receivables and prepaid expenses	46.9	64.9
Assets and receivables	33.8	46.4
Employer participation	13.1	17.8
Prepayments and accrued income	0.1	0.7
Total assets	**7486.6**	**8857.8**
Liabilities		
Liabilities and accrued expenses	55.5	69
Vested termination benefits and pensions	52.7	53.2
Other payables	1.7	1.7
Accrued liabilities and deferred income	1.1	14.1
Employers' contribution reserve	47.5	58.6
Pension liabilities and actuarial provisions	6818.1	6853.9
Active members' liabilities	2605.2	2600.7
Pensioners' liabilities	3989.4	4046.2
Provision for longevity	16	0
Provision for death and disability risk	32.5	32
Provision for future reduction in the discount rate	175	175
Investment fluctuation reserve	565.5	1370.8
Non-committed funds	0	505.5
Total liabilities	**7486.6**	**8857.8**

Operating account

In millions of CHF

	2022	2021
Ordinary and other contributions	313.4	329.3
Employers' contributions	144.7	141.8
Withdrawal from the employer contribution reserve	-3.3	-2.1
Additional employer contributions	16.7	20.9
Members' contributions	83.2	82.2
One-time payments and purchases	72.1	85.2
Transfers to the employer contribution reserve	0	1.2
Payments from the LPP/BVG Security Fund	0.1	0.1
Entry lump-sum transfers	94.1	99.6
Entry lump-sum transfers	27.4	30.9
Reimbursements of withdrawals for home ownership and divorce	5.7	7.8
Transfer of reserves from other Pension Funds (Nestlé or others)	9.8	2.3
Transfer from the Fonds de Pensions Complémentaire Nestlé (pensioners)	51.2	58.6
Inflow from contributions and entry lump-sum transfers	**407.5**	**428.9**
Regulatory benefits	-341.1	-337.5
Pensions	-307.2	-308.5
Lump-sum payments and one-time allocations	-33.9	-29
Non-regulatory benefits	0	-13.1
Voluntary pensions – extra-mandatory	0	-13.1
Termination benefits and withdrawals	-231.1	-165
Termination benefits for leavers	-203.8	-133.7
Benefits paid following partial liquidation	0	-4.3
Withdrawals for home ownership and divorce	-12.6	-16.3
Repayments to the Fonds de Pensions Complémentaire Nestlé	-14.7	-10.7
Outflow for benefits and withdrawals	**-572.2**	**-515.6**
Decrease/(increase) in pension liabilities, actuarial provisions, and contribution reserve	39	-87.5
Active members' liabilities	20.2	-48.8
Pensioners' liabilities	56.8	-22.4
Provision for longevity	-16	72.4
Provision for death and disability risks	-0.5	0.1
Provision for future reduction in the discount rate	0	0
Remuneration of retirement savings capital	-24.8	-91.9
Employer contribution reserve	3.3	3.1
Insurance cost – Contributions to the LPP/BVG Security Fund	-0.8	-0.9
Net result of insurance activities	**-126.5**	**-175.1**
Net return on investments	-1182.1	816.1
Gross return on investments	-1143	882.7
Asset management fees	-39.1	-66.6
Other income	0.1	0
Other expenses	0	-0.1
Administration expenses	-2.3	-2.8
Income surplus/(expense surplus) before adding to/(releasing from) investment fluctuation reserve	**-1310.8**	**638.1**
Decrease/(increase) in investment fluctuation reserve	805.3	-132.6
Income surplus/(expense surplus)	**-505.5**	**505.5**

Investments

2022 – Year in review

2022 was the year when inflation made a comeback, with prices rising at a rate not seen in the previous half-century. That prompted a substantial and rapid rise in interest rates, marking the end of zero and negative rates in Europe and the United States and leading to substantial losses for most asset classes. Unfortunately, 2022 will also be remembered for the start of the conflict between Russia and Ukraine.

To a large extent, developments in 2022 had their roots in 2021 and the Covid-19 pandemic from which most developed countries were recovering. At the start of 2021, a large number of national economies were rebounding at the same time, and this quickly resulted in large price increases. In mid-2022, year-on-year inflation rose to 10% and beyond in many countries. However, Switzerland did not fare too badly, with inflation limited to 3.5% partly because of the strong Swiss franc and the country's lower dependency on imported energy.

Commodity prices also rose sharply and the increase was accentuated by the war in Ukraine, which disrupted the global economy in several ways and continues to do so. Firstly, the war raised fears of gas shortages in Europe. Although those fears faded because of mild weather conditions and a slowdown in the manufacturing sector, those mitigating factors are not guaranteed to recur in winter 2023/24. In addition, trade sanctions applied by the West to Russia disrupted several channels for trading goods and services and rearranged the world's geopolitical map.

Higher inflation and interest rates meant that businesses were faced with higher production and funding costs. So far, companies have been surprisingly resilient, particularly because they have passed on some of the cost increases to consumers. At the end of the year, as winter approached and with energy prices surging, governments introduced support plans intended mainly for households, including measures to limit energy prices directly or indirectly.

To head off the risk of an inflationary spiral, central banks started raising official interest rates very sharply. This contributed to the increase in bond yields arising from higher inflation and increased the probability of a recession in 2023. Whereas official interest rates were near-zero or negative at the beginning of the year, the US Federal Reserve, European Central Bank and Swiss National Bank raised rates to 4.5%, 3% and 1% respectively by the end of 2022. As a result, Switzerland emerged from the era of negative rates that began in January 2015, which brought with it certain anomalies arising from cheap credit.

At the moment, central banks seem to have succeeded in slowing economies enough to stabilise inflation, which peaked in most developed countries in the second half of 2022. However, inflation is falling only slowly, and ended 2022 at 6.5% in the United States, 9.2% in the eurozone and 2.8% in Switzerland. This means that central banks will probably continue to raise official interest rates in 2023. However, they face a tricky task, because rate hikes could cause a much more severe economic slowdown than the one we have seen so far, and several economists have highlighted the risk of recession. For the time being, however, economies are resilient, with labour shortages and record-low unemployment rates in many developed countries.

As regards investments, the vast majority of asset classes saw large losses in 2022 as a result of higher inflation and interest rates. Even government bonds fell by more than 10% last year, a decline not seen in developed countries since the 1970s. In other words, these supposedly "safe" investments did not fulfil the safe-haven role they had played during the other major crises we have seen this millennium. Another factor that depressed overall returns for portfolios like our own was the fact that diversification between asset classes was relatively limited, and so did not produce its main protective effect.


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The Fund's performance

These adverse conditions did not leave the Fund unscathed, and it saw a decline of 13.6% in 2022. One way of measuring the Fund's performance is to compare its return with that of its strategic benchmark, which fell by 14.5% in 2022. This means that the Fund outperformed its benchmark by 0.9 points, and that outperformance was particularly due to three asset classes: international unlisted real estate investments, private equity investments and emerging-market bonds.

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 negative return of 13.6% in 2022, the Fund underperformed its peer group by more than 3 percentage points. The UBS index fell by 9.6% last year, and the Credit Suisse index by 10.5%. The Fund's underperformance relative to those indices was driven mainly by bonds denominated in foreign currencies (around two thirds of the underperformance) and international listed real estate investments (around one third).

Despite faring worse than its peers in 2022, over the long term – i.e. over the last decade, as shown by the figures in the last column of the table below – the Fund has outperformed its peer-group average.

Asset allocation

The table above shows the actual allocation of the Fund's financial assets as of 31 December 2022. The Fund's investments are rebalanced every month in order to remain close to the strategic allocation (last column of the table). Variances are, however, inevitable due to natural fluctuations in financial markets.

Allocation (%)

	Actual allocation	Strategic allocation
Cash and short-term investments	1.5	2.0
Bonds	39.7	39.0
Listed equities	25.3	27.0
Swiss real estate	17.8	16.0
International real estate	4.8	5.0
Infrastructure	0.4	4.0
Private equity	10.3	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 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 2022, the Fund's asset management fees equalled 0.49% of its assets, compared with 0.79% in 2021. The decrease was mainly due to performance-related (i.e. variable) fees on private equity investments, which were higher than usual in 2021 because of the excellent returns they delivered that year.

Responsible investing

Since 2018, the Fund has had a responsible investing policy through which it aims to generate more sustainable performance and manage the inherent investment risks more effectively by taking into account environmental, social and governance (ESG) criteria. The policy is defined in collaboration with the Nestlé Group, and has four key aspects:

1. Strategy, i.e. taking into account ESG criteria as far as possible in the Fund's long-term investment strategy, in addition to the usual requirements as regards returns, risks and costs;
2. Implementation, which consists of making the aforementioned ESG criteria an integral part of the process when selecting external asset managers and defining investment mandates;
3. Regular checking and monitoring of ESG factors within the Fund's investments by assessing external asset managers;
4. Communication about the Fund's activities and developments regarding responsible investing.

We summarise below the work done in 2022 and planned in 2023:

1. Strategy

In 2022, the Fund commissioned an estimate of the financial impact that climate risk is expected to have on its investments according to various scenarios. The main conclusion of the study is that climate change will have a negative but bearable impact on the Fund's investments. The investment fluctuation reserve would allow the Fund to absorb a short-term climate-related financial shock.

From 2023 onwards, the Fund will factor in this new climate risk component into the parameters of its asset liability management (ALM) studies.

Also in 2023, a more formal framework for managing climate-related risks and opportunities as regards the Fund's investments will be defined and integrated into its responsible investing policy.

Comparison of the Fund's performance

Performance (%)

	1 year	3 years[1]	5 years[1]	10 years[1]
Fund	**-13.6**	**0.1**	**1.9**	**3.7**
Strategic benchmark[2]	-14.5	-0.3	1.7	3.8
Credit Suisse index[3]	-10.5	0.0	1.4	3.1
UBS index[3]	-9.6	0.7	1.9	3.5

1) Annualised.
2) This is the only index for which we quote returns before the deduction of 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, performance is indicated net of fees, while for the Credit Suisse index, it is 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 PPCmetrics.

2. Implementation

In 2022, we looked at granting a mandate to invest in green bonds, i.e. bonds issued to finance the pursuit of environmental objectives. In the end, we decided not to set up the mandate, for two main reasons. Firstly, diversification remains limited in this segment of the market. Secondly, our corporate bond managers already hold a significant amount of green bonds as part of their respective existing mandates.

In 2023, we will assess opportunities relating to ESG and climate-related investments as part of our private equity allocation.

3. Checking and monitoring

The Fund regularly monitors the external asset managers tasked with managing the Fund's investments, in terms of both financial criteria (returns, risks and costs) and ESG criteria, with the support of consultants who specialise in this area. ESG assessments are based on whether asset managers factor ESG criteria explicitly into their investment processes, including their performance regarding shareholder engagement and voting in annual general meetings (AGMs), and on the amount of resources (human and material) they devote to ESG.

Based on that assessment, the Fund's asset managers obtained a satisfactory ESG rating in 2022. As regards the asset manager whose practices in this area were regarded as unsatisfactory in 2021, it showed progress in line with its development plan. In 2022, that manager added to its specialist ESG teams and practically doubled its participation in AGM votes.

4. Communication

Finally, to meet the communication requirements of the Fund's responsible investing policy, we regularly provide members with a general overview of our activities and developments in the ESG space.

Activities of the Investment Committee

In 2022, the main activities and decisions of the Investment Committee (the "Committee") were as follows:

- A review of its remit and priorities, which were adjusted to take into account achievements in the last five years and to meet future challenges;
- An analysis of how climate change could affect the Fund's investments. This analysis will take place regularly in the future as part of ALM studies;
- A detailed study of the additional risks facing the Fund's investments as a result of the sharp rise in inflation, including a sensitivity analysis of the various asset classes. According to this study, the investment fluctuation reserve should be able to absorb an inflation shock, and new simulations will be carried out as part of the 2023 ALM study;
- A review of the Fund's investment universe and the possible inclusion of new asset classes in the ALM study that will be carried out in 2023.

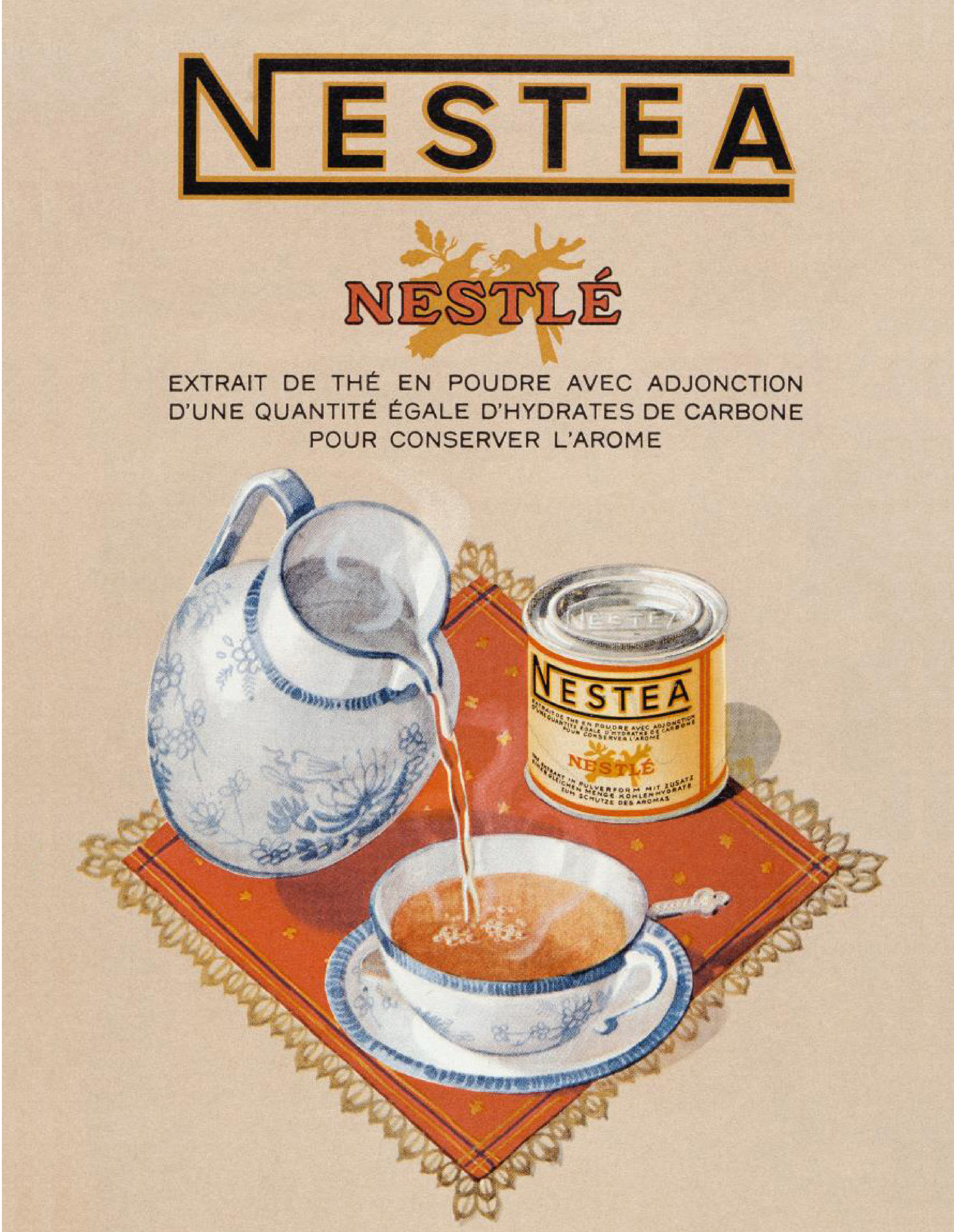
The Committee will also continue to work on initiatives that it began in previous years. It has validated its main priorities for 2023, including:

- An ALM study with a view to possibly adopting a new strategic asset allocation;
- The definition of a framework for managing climate-related risks and opportunities for the Fund's investments, in agreement and collaboration with the Nestlé Group;
- An analysis of private equity investment opportunities that have a positive ESG impact, particularly as regards the climate;
- The introduction of ESG monitoring suited to unlisted Swiss real estate investments.

Conclusion

2022 saw inflation hit record levels, resulting in a sharp rise in interest rates. This led to significant losses for most asset classes, particularly bonds and equities. The Fund was directly affected, seeing a cumulative loss of 13.6% in 2022.

Higher interest rates present short- and medium-term threats, including an increased risk of recession. However, the new environment of "normalised" interest rates is a welcome change following several years of zero or negative rates. A new outlook is emerging, with bonds finally offering reasonable yields for the least risky part of the portfolio. As the Fund prepares to review its investment strategy in 2023, this new outlook will have to be taken into account. The increase in interest rates in 2022 should mean that expected returns from most asset classes will rise, although macroeconomic tensions appear increasingly prevalent.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D'UNE QUANTITÉ ÉGALE D'HYDRATES DE CARBONE
POUR CONSERVER L'AROME
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ZUM SCHUTZE DES AROMAS

Funded status and actuarial situation

Actuarial situation

In millions of CHF

	31.12.2022	31.12.2021
Available assets	**7 383.6**	**8730.2**
Pension liabilities		
Active members	2 605.2	2600.7
Pensioners	3 989.4	4046.2
Provision for future reduction in the discount rate	175.0	175.0
Provision for longevity	16.0	0.0
Provision for death and disability risks	32.5	32.0
Total liabilities	**6 818.1**	**6 853.9**
Technical surplus / deficit		
of which investment fluctuation reserve	565.5	1370.8
in % of liabilities	8.3%	20.0%
of which non-committed funds/deficit	0.0	505.5
in % of liabilities	0.0%	7.4%
Funded status under the OPP2/BVV2	**108.3%**	**127.4%**

Available assets

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

Liabilities

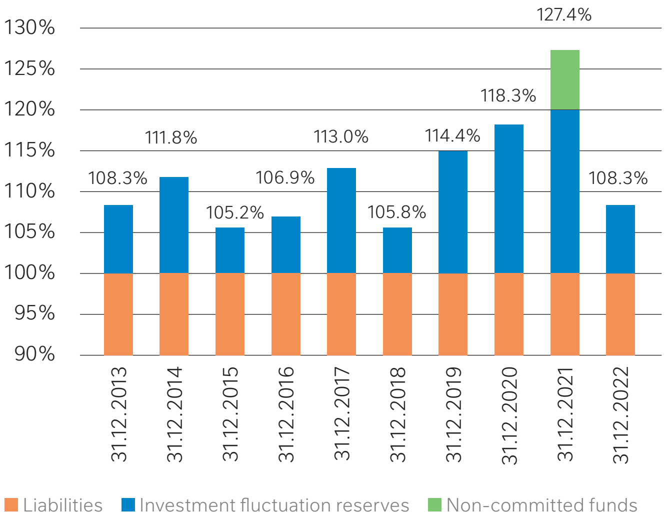
The Fund's liabilities are made up of:

- pension liabilities of active members which correspond to the sum of their retirement savings accounts.
- pension liabilities of pensioners, which correspond to the total mathematical reserves required to guarantee payment of pensions in payment. Since 31 December 2021, they are calculated using the 2020 LPP/BVG actuarial tables and a discount rate of 2%;
- the provision for longevity, which is intended to cover probable costs related to the increased life expectancy of pensioners that appear on the introduction of new actuarial tables. This provision amounted to CHF 16 million at 31 December 2022, or 0.4% of pension liabilities;
- the provision for death and disability risks, which is intended to smooth 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 32.5 million at 31 December 2022;
- the provision for future discount rate reductions which serves to cover the future costs of a reduction in the discount rate. This provision stood at CHF 175 million at 31 December 2022.

Provisions are set aside in accordance with the regulations on actuarial provisions and investment fluctuation reserves.

Funded status

At 31 December 2022, the funded status was **108.3%**, down from 127.4% in the previous year. It corresponds to the ratio between the Fund's available pension assets and its pension liabilities.The latter consist of active members' and pensioners' liabilities, and actuarial provisions.



Investment fluctuation reserve

The investment fluctuation reserve is intended to smooth fluctuations in the Fund's investment performance. At 31 December 2022 it stood at CHF 565.5 million, which represents 8.3% of total liabilities. This is well below the target value of 20% of liabilities and therefore the Fund will have to allocate future asset surpluses to the investment fluctuation reserve to bring it up to its target value.

Non-committed funds

As the investment fluctuation reserve did not reach its target value at 31 December 2022, the Fund had no non-committed funds at that date.

Interest on retirement savings capital of active members and pension adjustments

Interest on retirement savings capital of active members

At its November 2022 meeting, the Pension Board decided not to allocate additional interest on retirement savings capital at 31 December 2022 to supplement the LPP/BVG minimum interest rate of 1% credited in 2022.

Total interest on retirement savings capital has averaged 1.94% over the last five years and 2.17% over the last ten years. This remains considerably higher than the average annual LPP/BVG minimum rate of 1% over 5 years and 1.22% over 10 years.

Pension adjustments

The Pension Board is legally obligated to decide each year whether to adjust pensions in payment, unless the pension regulations provide for them to be systematically indexed to the cost of living as measured by the consumer price index or the inflation rate. In its deliberations, the Board takes several parameters into account, such as the Fund's performance during the year, its financial health evidenced by the funded status, and the equitable treatment of active members and pensioners. In the light of the funded status of 108.3% and the Fund's negative performance in 2022, the Pension Board decided not to allocate additional interest or to index pensions in payment at 1 January 2023.

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