# Fonds de Pensions Nestlé

Annual Report 2023

# Contents



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


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**Impressum**



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# Foreword

**Message from Peter Vogt,**
**Chair of the Pension Board until 31 December 2023**
2023 was a much better year than 2022, when financial markets performed disappointingly due to unfavourable economic developments, primarily consisting of significant increases in interest rates and inflation. A series of central-bank rate hikes finally brought inflation down last year without causing any major damage to economies on the whole. In the end, financial markets performed better than expected in 2023, which ended on a very promising note and delivered returns that were good or even very good.

In recent years, the Nestlé Pension Fund (the "Fund") has had to contend with a volatile and unpredictable economic environment. Looking at the last five years, the period from 2019 to 2021 was affected by the uncertainties arising from the exceptional circumstances of the Covid-19 pandemic, and since the start of 2022, to combat inflation, we have seen central banks carry out a series of rate hikes that have the potential to drag down economic growth. In addition, there has been instability triggered by various conflicts, particularly in Ukraine since February 2022 and in the Middle East since October 2023. These have also had a major impact on the global economy and on the financial markets in which the Fund invests its assets.

However, those financial markets did well in 2023, particularly at the end of the year, and this benefited the Fund, which achieved an annual return of +5.3%. The Fund's financial position strengthened further as a result, with its funded status rising from 108.3% at 31 December 2022 to 113.4% at the end of 2023. Accordingly, the Pension Board has decided to allocate additional interest of 3.5% to the retirement savings capital of all active members insured with the Fund at 31 December 2023, taking the overall interest rate to 4.5% for 2023. It has also decided to pay a special, one-off lump sum equal to half a monthly pension to the Fund's pensioners.

After serving for 10 years as Chair of the Pension Board, I resigned from that role with effect from 31 December 2023. Over my 10-year tenure, the Fund has adjusted the benefits it offers to changes in the world of work and society in general, as well as developing its investment strategy.

As regards the pension plan offered by the Fund, the main change took place in July 2013, when it switched to being a defined contribution plan in which members' future benefits depend on the amount of capital they have saved. When the changeover took place, the Fund gave members a choice between three different levels of savings contributions, and allowed them to designate a partner who would qualify for the same benefits as a widow or widower in the event of the member's death. Since that change, in 2018 the Fund also significantly adjusted the conversion rates used to calculate pensions, to reflect the reduction in its discount rate, which itself resulted from excessively low interest rates in financial markets. The resulting negative impact was mitigated by a general increase in savings contributions and the introduction of a conditional employer-funded guarantee for a large circle of members. Not only have these changes allowed the Fund to address demographic, social and economic developments in recent years, they have also given it a strong position from which to deal with the future challenges that those developments will create.

As regards the Fund's investment strategy, the Investment Committee has overseen a great deal of work in the last ten years. In particular, the Fund has increased its private-equity investments, which now include investments in infrastructure. In 2018, we also introduced a responsible investment policy that takes into account ESG-type criteria, and we added a climate policy in 2023. Finally, we have reduced asset management costs as a proportion of assets by 1 percentage point since 2013, representing a substantial saving of around CHF 75 million per year. These major changes have ensured the Fund's financial stability over the last decade, while laying a solid foundation for sustainable performance over the long term.

My term of office ended on 31 December 2023, and the Pension Board elected Philippe Vossen, employer representative for Société des Produits Nestlé SA, as its chair from 1 January 2024. I would like to welcome Philippe and I wish him every success in his new role as Chair of the Pension Board. I would also like to take this opportunity to offer my sincere thanks to the Fund's Management team and to all members of the Pension Board for their work in the last few years, and to offer them my best wishes for the future.

Peter Vogt
Chair of the Pension Board
(until 31 December 2023)

# Foreword

**Message from Philippe Vossen, Chair of the Pension Board since 1 January 2024**

Firstly, I would like to express my gratitude to my predecessor, Peter Vogt, for his outstanding work as Chair of the Pension Board over the last ten years. His commitment, dedication and vision have been vital to the Fund's development. Numerous projects have been completed and ambitious targets have been achieved during his tenure, bolstering the Fund's financial position, governance and management and preparing it to address future challenges with confidence.

The environment in which we work is constantly changing. Increasing life expectancy is leading to population ageing, technological advances are affecting the way people live and their working conditions, new patterns of work are becoming increasingly popular, and the desire for a better work/life balance is encouraging the development of flexible working arrangements.

Understandably, then, these changes are also leading to new expectations in terms of occupational benefits, which became mandatory under Swiss law in 1985, when circumstances were very different. It is crucial that these new expectations are addressed by all those concerned: by politicians and legislators in terms of the general occupational benefits framework, and more specifically by the Fund's Pension Board, which comprises representatives of the employer and employees, in order to establish the parameters of the occupational benefits solution provided to employees.

Current trends underline the importance of meeting people's growing demands in terms of occupational benefits that are flexible and tailored to their individual circumstances, taking into account demographic, social and technological changes. From the employer's point of view, in an ever-changing and competitive labour market, occupational benefits can be a vital distinguishing feature when it comes to attracting and retaining talent. Employees are increasingly able to customise their benefits in order to address their differing situations and objectives. For example, employees want to be able to make different levels of contributions depending on their age, and to have more flexible retirement options. The Fund is currently responding to most of this demand for greater flexibility and customisation, but it is also our duty to continue paying attention to new trends so that we can make positive changes for all parties in the future.

In terms of technology, judicious use of opportunities arising from advances in digital technology and artificial intelligence is another area of development to be explored and supported, particularly as regards the Fund's investments and the way the Fund is managed. For example, the Fund's website (www.fpn.ch) includes a portal that allows members to access their personal documents, use a benefits simulator and find answers to frequently asked questions. In future, with the increased automation made possible by artificial intelligence, it is possible that management processes will become more efficient, freeing up our staff to provide even more personal and in-depth advice to our members. Similarly, compiling a series of questions and answers based on AI-generated scenarios would give members a better understanding of certain topics, and give them greater autonomy in terms of managing their occupational benefits.

As the new Chair of the Pension Board, I am looking forward to working with the members of the Board and the Fund's Management as we deal with upcoming changes, address challenges and seize opportunities that arise, to ensure that we provide attractive occupational benefits that meet the current and future needs of the employer and the Fund's members.

Philippe Vossen
Chair of the Pension Board
(from 1 January 2024)

# Focus – Asset-liability management study

### Asset-liability management study: definition and purpose

The main objective of an occupational benefits institution, according to Article 65 of Switzerland's Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (LPP/BVG), is to offer the assurance that it can meet its occupational benefit obligations at all times while in particular maintaining its long-term financial equilibrium. Accordingly, it invests its assets using a long-term strategy involving optimal diversification across different asset classes. This asset allocation strategy aims to generate sufficient returns to cover the institution's occupational benefit obligations while taking into account its risk capacity.

Article 50 of the Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (OPP 2/BVV 2) sets out the parameters to be taken into account when assessing an occupational benefits institution's risk capacity. The institution must therefore ensure that it fulfils its purpose in terms of providing occupational benefits by considering all assets and liabilities on its balance sheet, as well as the structure of its membership (active members and pensioners) and likely future changes in its size.

To meet these requirements, it must carry out regular asset-liability management (ALM) studies, which provide the Pension Board with the information it needs to determine the appropriate investment strategy to meet its occupational benefits obligations.

To define that strategy, several key items of information are taken into account. Firstly, the institution must determine the return it needs to cover its occupational benefits obligations to its active members and pensioners, while maintaining a stable funded status. It must then determine its risk capacity, which is measured on the basis of its capacity to make up any underfunding, as well as its investment fluctuation reserve and its non-committed funds, if any. Finally, it is important to ensure that the investment strategy's expected return is in line with the return the institution needs to achieve.

### The 2023 ALM study and the Fund's new investment strategy

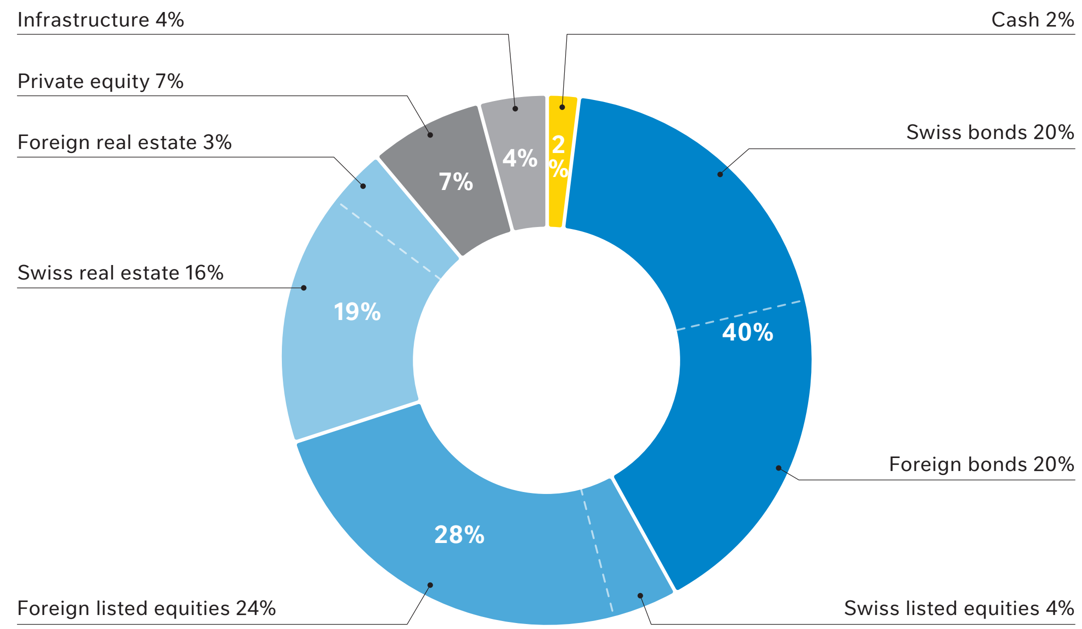
Compared with 2019, when the Fund carried out its previous ALM study, the main change naturally relates to interest rates, which have risen significantly since the 2021 inflation shock triggered by the post-pandemic recovery and exacerbated by the war in Ukraine. This has increased expected returns – which are based on interest rates – in most investment categories. Accordingly, based on the Fund's 2019 investment strategy, its expected return has been revised upwards assuming an unchanged level of risk.

The Fund's risk capacity and the structure of its occupational benefits obligations have not changed significantly since the previous ALM study in 2019. As a result, the 2019 investment strategy in place before the 2023 ALM study was already optimal and well diversified. Accordingly, it was not necessary to make any major changes to the Fund's investment strategy, just a slight adjustment to take into account the new environment of higher interest rates.

In conclusion, with an unchanged level of risk and a strategic asset allocation with roughly the same characteristics, and taking into account higher interest rates, the new investment strategy produces a higher expected return.

The new 2023 investment strategy set out in the following section has an expected return of 3.6%, 1.8 points more than the Fund's required return, which is estimated to be 1.8% for the duration of the 2023 ALM study (assuming an unchanged level of benefits relative to 2019).

Following the 2023 ALM study, the Pension Board approved the new strategic asset allocation set out below.




As stated above, this new investment strategy is very similar to the one that resulted from the 2019 ALM study. The main change consists of a 2-point reduction in the real-estate allocation, and a corresponding increase in the bonds and listed equities allocations. The reduction in the real-estate allocation focuses on listed international real-estate investments, whose financial characteristics show close correlation with equity markets and offer limited diversification within the Fund's investment portfolio.

The expected risk/return/cost profile of the new investment strategy is set out in the table below. It is based on long-term assumptions (10 years).

| | Asset allocation strategy |
|---|---|
| Expected return | 3.6% |
| Risk (volatility) | 7.9% |
| TER (total expense ratio) in basis points | 68 |

# Organisation (as of 31 December 2023)

## Pension Board

**Employer representatives**

Peter Vogt, Chair, Nestlé SA, Vevey
Michèle Monique Burger, Nestlé SA, Vevey
*(until 31 May 2023)*
Carole Marchaud, Société des Produits Nestlé SA, Vevey
*(from 1 June 2023)*
Mathieu Rieder, Société des Produits Nestlé SA, Vevey
Sonia Studer, Nestlé Suisse SA, Vevey
Valérie Krattinger, Nestlé Suisse SA, Vevey
Manuela Krampulz, Nestlé Nespresso SA, Vevey
*(until 31 August 2023)*
Jonathan Zimmermann, Nestlé Nespresso SA, Vevey
*(from 1 September 2023)*

**Pensioners' representative, in an advisory capacity**

Martin Suter
*(until 14 May 2023)*
André Schumacher
*(from 15 May 2023)*

**Member representatives**

Corinne Bonaccorsi, Société des Produits Nestlé SA, Vevey
Marc-André Zingre, Société des Produits Nestlé SA, Vevey
Oriane Seydoux, Société des Produits Nestlé SA, Vevey
Beat Hess, Nestlé Suisse SA, Vevey
Isabelle Guignard, Nestlé Suisse SA, Vevey
*(until 31 July 2023)*
Timo Stoyer, Nestlé Suisse SA, Vevey
*(from 1 August 2023)*
Dominique Rovero, Nestlé Nespresso SA, Vevey

## Investment Committee

**Employer representatives**

Mathieu Rieder, Chair,
Société des Produits Nestlé SA, Vevey
Valérie Krattinger, Nestlé Suisse SA, Vevey

**Member representatives**

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

## Management

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

## Accredited pension actuary

Didier Sauteur, Aon Suisse SA, Nyon

## Investment advisor

PPCmetrics SA, Nyon

## Auditors

Ernst&Young SA, Lausanne


# Key figures

| | | 31.12.2023 | 31.12.2022 |
|---|---|---|---|
| **Funded status** | | 113.4 % | 108.3 % |
| **Available assets** | In millions of CHF | 7 627.8 | 7 383.6 |
| **Liabilities** | In millions of CHF | 6 724.7 | 6 818.1 |
| – Active members' liabilities | In millions of CHF | 2 728.2 | 2 605.2 |
| – Pensioners' liabilities | In millions of CHF | 3 935.1 | 3 989.4 |
| – Actuarial provisions | In millions of CHF | 61.4 | 223.5 |
| **Investment fluctuation reserve** | In millions of CHF | 903.1 | 565.5 |
| **Non-committed funds** | In millions of CHF | 0 | 0 |
| **Investment performance (net of costs)** | | 5.3 % | -13.6 % |
| **Asset management fees** | | 0.48 % | 0.49 % |
| **Asset allocation** | | | |
| – Cash and cash equivalents | | 1.1 % | 1.5 % |
| – Bonds | | 41.0 % | 39.7 % |
| – Equities | | 28.3 % | 25.3 % |
| – Real estate | | 18.2 % | 22.6 % |
| – Infrastructure | | 0.9 % | 0.4 % |
| – Alternative investments | | 10.5 % | 10.5 % |
| **Interest rate on retirement savings accounts** | | 4.5 % | 1 % |
| **Discount rate** | | 2 % | 2 % |
| **Actuarial tables** | | LPP 2020 | LPP 2020 |
| **Headcount** | | 14 363 | 14 318 |
| – Of which active members | | 8 447 | 8 402 |
| – Of which pensioners | | 5 916 | 5 916 |

# 2023 financial year

### Financial situation of the Fund

In 2023, the world economy finally saw a decline in inflation following the monetary tightening that most central banks began in 2022. As a result, central banks could pause their efforts to combat rising prices, or even cut official interest rates, in 2024 in order to support economic growth, which is slowing in many countries.

This prospect resulted in equities, bonds and real estate performing well in the fourth quarter of 2023, allowing the Fund to achieve a performance that can be described as good or even very good, with a full-year return of 5.3%. That is slightly more than the average return of Swiss occupational benefits institutions, which was around 5% according to the UBS index, but well below the performance of the Fund's strategic benchmark, which was 7.1%.

The underperformance was due to the Fund's illiquid investments, particularly in the private-equity segment, which can occasionally suffer in comparison with their benchmark index in a given year.

Over the long term, however, the Fund's private-equity investments have outperformed their benchmark.

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 improved from 108.3% at 31 December 2022 to 113.4% at 31 December 2023, helped by the strong performance of financial markets.

The increase was also driven by the release of the CHF 175 million actuarial provision for future reduction in the discount rate.

### Resolutions of the Pension Board

In 2023, the Pension Board passed the following key resolutions:

– To release the CHF 175 million actuarial provision for future reduction in the discount rate at 31 December 2023 following the increase in interest rates;
– To set the interest rate on retirement savings capital at 1.25% for 2024, in line with the Swiss Federal Council's decision regarding the minimum BVG/LPP interest rate;
– To adopt a number of minor regulatory amendments to bring the Fund's regulations into line with new statutory provisions, particularly following the AVS/AHV21 reform, along with the new Swiss Data Protection Act (see below);
– To adjust Annex 1 of the Investment Regulations, following the asset-liability management study described in the "Focus" section above, to take into account changes to the strategic asset allocation;
– To adopt a climate policy that forms an integral part of the Fund's responsible investing policy.

The Pension Board also passed the following resolutions in January 2024:

– To grant additional interest of 3.5% on the retirement savings capital of active members, taking the total interest to 4.5% at 31 December 2023;
– Not to adjust pensions in payment at 1 January 2024, but to pay a special, one-off lump sum equal to half a monthly pension for 2023.

### AVS/AHV reform

At its meeting of 16 May 2023, the Pension Board approved the changes to the Fund Regulations from 1 January 2024 in order to take into account the AVS/AHV reform that came into force on that date. That reform affects the reference retirement age of women, which will gradually rise from 64 to 65 years starting in 2025, and will give members greater flexibility regarding their retirement. The adjustments do not affect the benefits provided by the Fund to its members. The Fund's retirement age for women has been brought into line with the new AVS/AHV reference retirement ages without any reduction in benefits, and all active members can now choose to take partial retirement and receive pension benefits until the age of 70 as opposed to 68 previously.

### Entry into force of Switzerland's new Federal Act on Data Protection (FADP) on 1 September 2023

On 1 September 2023, Switzerland's new Federal Act on Data Protection (FADP) came into force, modelled on the European Union's General Data Protection Regulation (GDPR). The Fund has adjusted its processes and documentation to comply with the new data protection requirements. As an occupational benefits institution providing mandatory benefits, the Fund is regarded as a federal body for data protection purposes, which means that it is subject to more stringent requirements than companies, which are regarded as "private persons" within the meaning of the act.

To comply with the new act, the Fund has therefore taken the following measures:

- Creation of a register of processing activities, which is published on the website of Switzerland's Federal Data Protection and Information Commissioner (FDPIC);
- Appointment of a Data Protection Officer (DPO), whose contact details have been disclosed to the FDPIC and are published on the Fund's website;
- Publication on the Fund's website of its privacy notice with respect to data protection.

## Balance sheet

In millions of CHF

| | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| | | |
| Investments | 7707.7 | 7439.7 |
| Cash and short-term investments | 82.2 | 110.1 |
| Bonds | 3160.1 | 2953.8 |
| Equities | 2183.2 | 1879.6 |
| Swiss real estate | 1246.1 | 1323.1 |
| International real estate | 154.4 | 355.4 |
| Infrastructure | 66.9 | 31.9 |
| Private equity | 798.6 | 768.6 |
| Hedge funds | 16.2 | 17.2 |
| Receivables and prepaid expenses | 47.6 | 46.9 |
| Assets and receivables | 33.3 | 33.8 |
| Employer participation | 14.1 | 13 |
| Prepayments and accrued income | 0.2 | 0.1 |
| | | |
| **Total assets** | **7755.3** | **7486.6** |
| | | |
| **Liabilities** | | |
| | | |
| Liabilities and accrued expenses | 74.4 | 55.5 |
| Vested termination benefits and pensions | 51.2 | 52.7 |
| Other payables | 8.7 | 1.7 |
| Accrued liabilities and deferred income | 14.5 | 1.1 |
| Employers' contribution reserve | 53.1 | 47.5 |
| Pension liabilities and actuarial provisions | 6724.7 | 6818.1 |
| Active members' liabilities | 2728.2 | 2605.2 |
| Pensioners' liabilities | 3935.1 | 3989.4 |
| Provision for longevity | 31.5 | 16 |
| Provision for death and disability risks | 29.9 | 32.5 |
| Provision for future reduction in the discount rate | 0 | 175 |
| Investment fluctuation reserve | 903.1 | 565.5 |
| Non-committed funds | 0 | 0 |
| | | |
| **Total liabilities** | **7755.3** | **7486.6** |

## Operating account

In millions of CHF

| | 2023 | 2022 |
|---|---|---|
| Ordinary and other contributions | 309 | 313.4 |
| Employers' contributions | 147.9 | 144.7 |
| Withdrawal from the employer contribution reserve | -5.2 | -3.3 |
| Additional employer contributions | 19.2 | 16.7 |
| Members' contributions | 84.4 | 83.2 |
| One-time payments and purchases | 62.7 | 72.1 |
| Payments from the LPP/BVG Security Fund | 0 | 0 |
| Entry lump-sum transfers | 95.3 | 94.1 |
| Entry lump-sum transfers | 30.3 | 27.4 |
| Reimbursements of withdrawals for home ownership and divorce | 4.4 | 5.7 |
| Transfer of reserves from other Pension Funds (Nestlé or others) | 4 | 9.8 |
| Transfer from the Fonds de Pensions Complémentaire Nestlé (pensioners) | 56.6 | 51.2 |
| **Inflow from contributions and entry lump-sum transfers** | **404.3** | **407.5** |
| | | |
| Regulatory benefits | -369.5 | -341.1 |
| Pensions | -305.6 | -307.2 |
| Lump-sum payments and one-time allocations | -63.9 | -33.9 |
| Non-regulatory benefits | -13.2 | 0 |
| Voluntary pensions – extra-mandatory | -13.2 | 0 |
| Termination benefits and withdrawals | -168 | -231.1 |
| Termination benefits for leavers | -143 | -203.8 |
| Withdrawals for home ownership and divorce | -14.1 | -12.6 |
| Repayments to the Fonds de Pensions Complémentaire Nestlé | -10.9 | -14.7 |
| **Outflow for benefits and withdrawals** | **-550.7** | **-572.2** |
| | | |
| Decrease /(increase) in pension liabilities, actuarial provisions, and contribution reserve | 98.7 | 39 |
| Active members' liabilities | -14.3 | 20.2 |
| Pensioners' liabilities | 54.3 | 56.8 |
| Provision for longevity | -15.5 | -15.9 |
| Provision for death and disability risks | 2.6 | -0.6 |
| Provision for future reduction in the discount rate | 175 | 0 |
| Remuneration of retirement savings capital | -108.6 | -24.8 |
| Employer contribution reserve | 5.2 | 3.3 |
| Insurance cost – Contributions to the LPP/BVG Security Fund | -0.6 | -0.8 |
| **Net result of insurance activities** | **-48.3** | **-126.5** |
| | | |
| Net return on investments | 388 | -1182.1 |
| Gross return on investments | 424.4 | -1143 |
| Asset management fees | -36.4 | -39.1 |
| Other income | 0 | 0.1 |
| Other expenses | 0 | 0 |
| Administration expenses | -2.1 | -2.3 |
| | | |
| **Income surplus/(expense surplus) before adding to/(releasing from) investment fluctuation reserve** | **337.6** | **-1310.8** |
| Decrease/(increase) in investment fluctuation reserve | -337.6 | 805.3 |
| **Income surplus / (expense surplus)** | **0** | **-505.5** |

# Placements

## 2023 - Year in review

The soft landing that central banks seem to have successfully engineered in 2023 will probably prove to be the year's main event in economic terms. The series of rate hikes orchestrated by central-bank officials since 2022 – amounting to almost 5 percentage points in the eurozone and the United States – has helped push down inflation via a "controlled" economic slowdown that has stopped short of a recession. After peaking at around 10% in the second half of 2022, inflation fell sharply until the end of 2023, moving back close to 3% in developed countries. This finally made it possible for investors in general and institutional investors in particular to achieve strong returns last year.

However, the year got off to a fairly difficult start, with widespread fears of recession following a number of interest-rate hikes by central banks starting in early 2022. Those fears were partly vindicated, and the situation was made worse by problems experienced by certain export-driven countries in Northern Europe, particularly Germany, whose gross domestic product (GDP) fell by 0.3% in 2023. However, those countries mainly suffered from exogenous factors such as lower exports and higher energy prices.

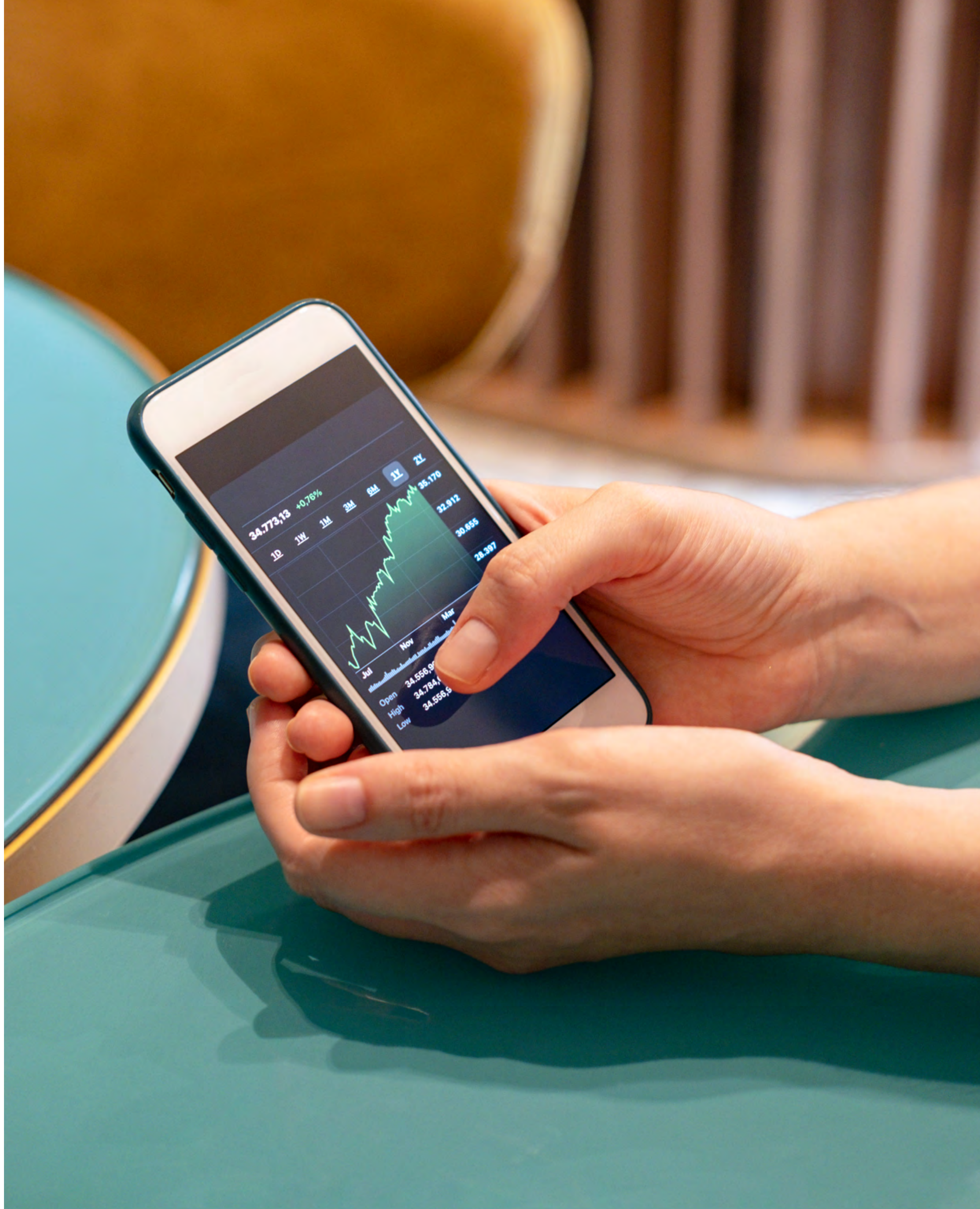
The decline in exports was partly due to the economic difficulties of China, one of Europe's main trading partners, which has been grappling with a real-estate crisis since 2021 as well as deflation caused by weakening domestic demand since mid-2023. The sharp rise in energy prices, meanwhile, resulted largely from the war in Ukraine. In the end, eurozone GDP stagnated in 2023, with growth limited to 0.1%. Switzerland, whose economy is dependent on the rest of Europe to a large extent, fared only slightly better with growth of 0.4%. In contrast, the US economy continued to grow strongly in 2023, with GDP rising by 3.1%. The difference was mainly the result of the US government's economic stimulus measures, which were much more aggressive than those employed in the eurozone.

Nevertheless, the sharp rise in central-bank interest rates and those paid by consumers, companies and governments clearly contributed to a slowdown in economic growth. It even caused difficulties in several sectors of the economy, starting with the banking sector, which suffered a major crisis of confidence in the first quarter of 2023. Although higher interest rates are generally good news for banks, they rose too quickly in 2022 and 2023, causing the interest banks were paying on their liabilities (customer deposits) to rise more quickly than the income they were receiving from their assets. That imbalance came against the backdrop of a decline in lending, also caused by higher rates, and this resulted in major losses for the most fragile banks. Panic spread quickly, investors sold bank shares in huge volumes and customers withdrew deposits.

This banking crisis also spread to financial institutions whose problems were not directly related to higher interest rates but to other risks such as cryptocurrencies (Silvergate) and investment banking (Credit Suisse). Although Credit Suisse – a giant of the Swiss banking sector – was assumed to have a solid financial position, all efforts to restore confidence and stem the decline in its share price failed. Taking the view that Credit Suisse was a systemically important bank that could not be allowed to fail, the Swiss authorities put together a rescue deal in which it would be acquired by UBS in return for government guarantees. Today, that deal seems to have been successful, because the Swiss financial sector is continuing to operate normally, although a number of adjustments have taken place between its various protagonists.

As regards Switzerland more broadly, inflation peaked at 3.5% in 2022, much lower than levels seen in Europe and the US. This was mainly due to the strong Swiss franc and the downward pressure this put on the prices of imported goods and services. As a result, the Swiss National Bank did not have to raise official interest rates as much as its European and US counterparts in order to tame inflation. Nevertheless, the Swiss population still had to contend with significant price increases in several areas, such as health insurance and rent.

Against this background of widespread uncertainty, returns from the world's financial markets remained mixed until around the end of October. However, after inflation had hit highs of almost 10% in the second half of 2022 – levels not seen for 40 years – it fell throughout 2023 in the United States and Europe. Towards the end of last year, it even moved close to the 2% target adopted by central banks, suggesting that they could pause their efforts to combat rising prices or cut official interest rates in 2024 in order to support economic growth that is slowing in many countries. This positive scenario was good news for financial markets, which achieved most of their gains for 2023 in the last two months of the year: this was the case for most asset classes, and particularly bonds, equities and real estate.



## The Fund's performance

Like most occupational benefits institutions in Switzerland, the Fund benefited from the unexpected late-2023 rally in financial markets, posting a gain of 5.3% during the year. One way of measuring the Fund's performance is to compare its return with that of its strategic benchmark, which rose by 7.1% in 2023. The Fund therefore underperformed its benchmark by 1.8 points. This was due to the Fund's illiquid investments, and particularly its private-equity investments, which performed less well than their listed counterparts in 2023.

The performance gap was partly due to the fact that for listed investments, valuations change instantly, whereas for private-equity investments they change over a longer timeframe. However, over the long term, returns from our private-equity investments, net of fees, have been around 2 points higher than those from listed investments, and so their inclusion in the Fund's investment strategy is fully justified.

In assessing the Fund's performance relative to its peers – i.e. other occupational benefits institutions in Switzerland – we use an index calculated by UBS and the peer group put together by our investment consultant PPCmetrics: for more details, please see the definitions in the notes to the table below. With a gain of 5.3% in 2023, the Fund outperformed the UBS index by 0.3 points, but underperformed the PPCmetrics peer group by 0.8 points. Over timeframes of five years or more, however, the Fund is outperforming both of these benchmarks. In particular, since the start of the Fund's performance history – i.e. 1 July 2013, when it switched to a defined-contribution model – it has outperformed both benchmarks by 0.3 points per year and is close to the top quartile. For an institutional investor such as the Fund, these long-term comparisons are the ones that are most relevant.

Allocation (%)

| | Actual allocation | Strategic allocation |
|---|---|---|
| Cash and short-term investments | 1.1 | 2.0 |
| Equities | 28.3 | 28.0 |
| Private-equity investments | 10.3 | 7.0 |
| Bonds | 41.0 | 40.0 |
| Swiss real estate | 16.2 | 16.0 |
| International real estate | 2.0 | 3.0 |
| Infrastructure | 0.9 | 4.0 |
| 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 allocation

The table above shows the actual allocation of the Fund's financial assets at 31 December 2023 compared with the new strategic allocation adopted in December 2023 following the most recent ALM study (see the "Focus" section of this report). The Fund's investments are rebalanced every month in order to remain close to the strategic allocation. Variances are, however, inevitable due to natural fluctuations in financial markets.

## Asset management fees

Asset management fees include all fees paid by the Fund in relation to the day-to-day management of its investments. They consist of:
- 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 2023, the Fund's asset management fees equalled 0.48% of its assets, similar to the 2022 figure of 0.49%.

## Responsible investing

In 2018, the Fund adopted a responsible investing policy through which it aims to generate more sustainable performance and manage the inherent risks of its investments 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 areas. The work done in each area in 2023 is summarised below.

### 1. Strategy

The main ESG-related strategic initiative in 2023 concerned the environment (the E in ESG), as the Fund adopted a specific climate policy for its investments. That climate policy therefore forms an integral part of the Fund's responsible investing policy, and establishes a more specific framework for managing the climate impact of the Fund's investments. It aims to define the Fund's commitment, through its investments, to the Paris Agreement signed at COP 21. It also brings the Fund into line with the Nestlé group's climate policy.

The Fund is committed to supporting the Paris Agreement by applying the following principles:
- The Fund favours shareholder engagement as its main means of action.



## Comparison of the Fund's performance

Performance (%)

| | 1 year | 3 years[1] | 5 years[1] | 10 years[1] |
|---|---|---|---|---|
| **Fund** | **5.3** | **0.1** | **3.8** | **3.8** |
| Strategic benchmark[2] | 7.1 | 0.2 | 3.8 | 3.9 |
| UBS index[3] | 5.0 | 0.9 | 3.6 | 3.5 |
| PPCmetrics peer group - Median performance[4] | 6.1 | 0.3 | 3.4 | 3.5 |
| PPCmetrics peer group - Fund's ranking (standardised rank out of 100)[4] | 73 | 56 | 26 | 34 |

1) Annualised.
2) This is the only index for which we quote returns before the deduction of fees.
3) The UBS index gives up-to-date information about the average returns achieved by Swiss pension funds that hold their pension assets with UBS.
4) The PPCmetrics peer group consists of over 100 occupational benefits funds monitored by our consultant PPCmetrics. The standardised ranking out of 100 compares the Fund's performance with that of its peers. A ranking of 1 would mean that the Fund is the best performer in its peer group, a ranking of 100 would mean that the Fund is the worst performer, and a ranking of 30 would mean that 29 peers have performed better than the Fund while 70 have performed worse.

- The Fund will also make investments in climate solutions, for example in the renewable energies sector, and make selective use of divestments – by reducing exposure to certain investments or excluding them altogether – in its investment portfolio.

The Fund aims to implement this climate policy while maintaining its risk/return/cost profile, along with healthy diversification within its investment portfolio.
The Pension Board adopted the climate policy in November 2023 by integrating it within the Fund's Investment Regulations. The climate policy is currently being implemented on the basis of 2027 targets for listed equities, corporate bonds, Swiss real estate and infrastructure.
It will be reviewed regularly and adjusted in line with any legislative changes, and with developments in the financial sector regarding climate commitments.

### 2. Implementation

In 2024, the Fund's fifth programme of private-equity investments will begin, and it has already appointed an external asset manager specialising in private equity investments to manage the programme. After various analyses, the Fund has decided to increase the proportion of investments with high ESG impact to 20% in the new programme (as opposed to 7.5% in the previous programme that began in 2020), while maintaining the risk/return/cost profile. Part of those high-ESG-impact investments will focus on climate solutions.

### 3. Checking and monitoring

The Fund has continued its efforts to carry out regular monitoring of the external asset managers tasked with managing the Fund's investments, in terms of both financial criteria (returns, risks and costs) and ESG, with the support of consultants who specialise in this area. ESG assessments look at how asset managers factor ESG criteria explicitly into their investment processes, including their performance regarding shareholder engagement and voting at annual general meetings, and the amount of resources (human and material) they devote to ESG.

Based on those assessments, and as in 2022, the ESG policies of the Fund's asset managers were deemed satisfactory in 2023.

### 4. Communication

Communication is an important aspect of the Fund's responsible investing policy, with the aim of informing our members about the Fund's ESG-related activities and developments.

## Activities of the Investment Committee

In 2023, the Investment Committee submitted the following two proposals to the Pension Board:
- Adjust the Fund's investment strategy in the light of the ALM study outlined in the "Focus" section above;
- Adopt a climate policy that forms an integral part of the Fund's responsible investing policy.

The Pension Board approved both proposals at its meeting of 23 November 2023.

The Investment Committee granted passive bond and Swiss equity investment mandates to two new external asset managers, in order to improve diversification in terms of asset managers in these segments, which account for 60% of the Fund's assets. It also confirmed its priorities for 2024, including:
- Reviewing the mandate of the investment consultant;
- Granting new passive management mandates;
- Launching the fifth private-equity investment programme in order to maintain vintage diversification in this asset class.

## Conclusion

The success of efforts to bring inflation under control and the resilience of economic activity will probably remain the main factors influencing financial markets in 2024.

If inflation were to remain at its current level of around 3% in the US and eurozone – above the 2% level targeted by central banks – then the rate cuts that many investors are expecting in 2024 could be delayed. Since the strong investment returns achieved in late 2023 were driven by these expectations, a delay of this kind could adversely affect performance in 2024. As regards the resilience of economic activity, this will mainly be a challenge for the eurozone, and to a lesser extent Switzerland. Their economies grew by close to 0% in 2023, and a prolonged stagnation or contraction in 2024 would have negative repercussions for financial markets. In short, it is not yet possible to conclude that central banks have successfully achieved a soft landing, although developments in the first few months of 2024 are fairly reassuring.

# Funded status and actuarial situation

### Actuarial situation

In millions of CHF

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Total assets | 7 755.3 | 7 486.6 |
| Liabilities, accrued liabilities and deferred income, other | -74.4 | -55.5 |
| Employer contribution reserves | -53.1 | -47.5 |
| **Available assets** | **7 627.8** | **7 383.6** |
| Pension liabilities | | |
| Active members | 2 728.2 | 2 605.2 |
| Pensioners | 3 935.1 | 3 989.4 |
| Actuarial provisions | | |
| Provision for longevity | 31.5 | 16.0 |
| Provision for death and disability risks | 29.9 | 32.5 |
| Provision for future reduction in the discount rate | 0.0 | 175.0 |
| **Total liabilities** | **6 724.7** | **6 818.1** |
| Technical surplus/deficit | | |
| of which investment fluctuation reserve | 903.1 | 565.5 |
| in % of liabilities | 13.4% | 8.3% |
| of which non-committed funds/deficit | 0.0 | 0.0 |
| in % of liabilities | 0.0% | 0.0% |
| **Funded status under the OPP2/BVV2** | **113.4%** | **108.3%** |

### Available assets

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

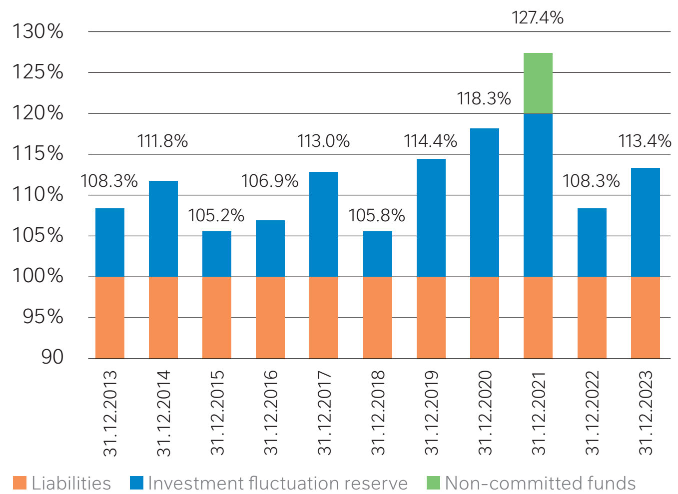
### Liabilities

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 31.5 million at 31 December 2023, or 0.8% 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 29.9 million at 31 December 2023.
- the provision for future reduction in the discount rate which serves to cover the cost of any reduction in the discount rate. However, this provision had been maintained when the discount rate was last reduced from 2.25% to 2% at 31 December 2021. Given the increase in interest rates, the provision was released on 31 December 2023.

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

### Funded status

At 31 December 2023, the funded status was 113.4%, up from 108.3% at 31 December 2022. 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 2023 it stood at CHF 903.1 million, which represents 13.4% of total liabilities. This is 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 2023, the Fund had no non-committed funds at that date.



# Interest rates and pension adjustments

### Interest on the retirement savings capital of active members

In 2023, following a decision by the Pension Board, the retirement savings capital of active members was credited with interest at the minimum rate of 1% plus additional interest of 3.5%, taking total interest for active members to 4.5% in the year under review.

Total interest on retirement savings capital has averaged 2.64% over the last five years and 2.32% over the last ten years. This remains considerably higher than the average annual LPP/BVG minimum rate of 1% over 5 years and 1.17% 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. Although the Pension Board opted not to adjust pensions in payment on 1 January 2024, a decision was taken to pay a special, one-off lump sum equal to half a monthly pension for 2023.

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