



Nestlé UK Pension Fund

# Pensions News 2016



## Changes to the Trustee Board

Find out about your new  
Trustee Directors

## Value of the Fund

The Fund's value has  
increased to £3.85bn

# Welcome



Welcome to the 2016 edition of Pensions News. As usual, this provides you with a summary of the annual accounts for the Nestlé UK Pension Fund (the Fund) for the year ending 31 December 2015, together with information about other developments within the Fund.

This is my first newsletter as Chairman of the Trustee Board, since taking over from Paul Vernon in February. Paul had been Chairman since 2010 and was a fantastic leader – a dynamic, motivated and, most importantly, caring Trustee who put the needs of all members at the heart of his decision-making. Paul remains within Nestlé in a senior role, where his business acumen and collaborative approach will continue to contribute to the success of the UK business. On behalf of the Board, I would like to take this opportunity to thank Paul for his immense contribution to the Fund and wish him the best for the future.

There have also been several other changes to the Trustee Board, which are reported on page 11 and I would like to thank all those who left us during the year.

Like most UK Trustee Boards, we face many challenges. The biggest task for all those responsible for defined benefit schemes is to lead their scheme into a situation where the investments cover – or ideally exceed – the value of the liabilities (the estimated amount of money the Fund needs to pay benefits). Investment markets are challenging and it is difficult to identify and capture reliable sources of long-term investment returns.

On the other side of the equation, liabilities are calculated with reference to ‘gilt yields’ (essentially long-term interest rates). Generally, the lower gilt yields are, the higher the value of the liabilities. In recent years, gilt yields have fallen due to market forces, so increasing the Fund’s liabilities. Hence, with investments not keeping up with the growth in liabilities, the Fund continues to have a financial shortfall or deficit. The value of the deficit is currently being formally assessed in the latest valuation.

Finally, challenges can also arise as a result of governmental or wider political intervention, as evidenced by the outcome of the recent EU Referendum. Whilst we are clearly entering uncertain times, I would like to assure you that the Trustee Board will be constantly reviewing the situation as matters evolve and working closely with our advisers to take any necessary actions to protect the Fund and the best interests of our members.

It will be a busy year!

**Steve Delo**  
Chairman of the Trustee Board

# Update on valuation

The actuarial valuation of the Fund, as at 31 December 2015, is currently underway.

The valuation is a financial ‘health-check’ of the Fund, which compares the value of the Fund’s assets (the money it has available), against its liabilities (the estimated amount of money that it will need in the future to pay the benefits members have already earned). Comparing the assets with the liabilities gives a funding level, which indicates if the Fund has a surplus (more money than it needs to pay members’ benefits), or a deficit (less money than it needs to pay members’ benefits).

The valuation only covers the defined benefit part of the Fund (Lanes 2 and 3) and does not take Lane 1 or the Starter Lane into account as they provide benefits on a defined contribution basis.

Valuations are normally carried out at least once every three years, although they can be carried out more frequently.

The Trustee Board usually provides a funding update each year, summarising the results of the most recent actuarial valuation and detailing how the funding position has changed since the valuation date. As the valuation is ongoing, this update is not included in Pensions News this year.

The valuation is a long process and the Trustee hopes to be in a position to agree the valuation with the Company by early 2017. We’ll let you know the results once the valuation has been finalised.

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# Income and expenditure

Here's a summary of the Fund's Accounts for the year ending 31 December 2015, compared with the year ending 31 December 2014.

## Money coming into the Fund

	Year to 31 December 2015 £000s	Year to 31 December 2014 £000s
Employer contributions*	£102,577	£121,045
Employee contributions	£16,473	£16,663
Transfers in	£1,769	£1,820
Investment and other income	£39,189	£30,988
Change in market value of investments	£51,402	£389,004
<b>Total</b>	<b>£211,410</b>	<b>£559,520</b>

## Money going out of the Fund

	Year to 31 December 2015 £000s	Year to 31 December 2014 £000s
Pensions paid including lump sum benefits	£165,527	£158,824
Lump sum death benefits	£1,090	£1,082
Payments to leavers	£8,116	£3,831
Administration expenses including PPF levy**	£5,961	£7,759
Investment management expenses	£3,834	£4,088
<b>Total</b>	<b>£184,528</b>	<b>£175,584</b>

\* The employer contributions include deficit funding contributions of £64.5m in 2015 and £81.4m in 2014

\*\* PPF (Pension Protection Fund) levy: £1.5m in 2015 compared with £3.9m in 2014

## Value of the Fund

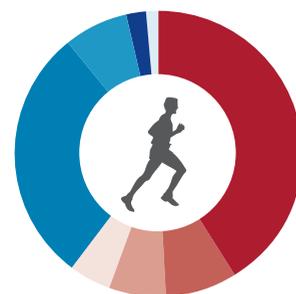


# Defined benefit investments

2015 was a year of continued global financial uncertainty, with most asset classes only achieving single digit returns. As a result, the Fund's investments provided a modest overall return on investments of 2.5% for the year.

Equity markets gave a range of returns depending on location. Property and private equity performed strongly, but corporate bonds and index-linked gilts had a difficult year.

The Fund's assets (excluding monies in Lane 1 and the Starter Lane) were invested as follows at 31 December 2015:



Equities	41.2%
Hedge funds	8.1%
Property	6.4%
Private equity	4.6%
UK index-linked bonds	29.0%
Corporate bonds	7.1%
Other	2.3%
Cash	1.3%
<b>Total</b>	<b>100.0%</b>

## Investment jargon explained

### Return-seeking assets

These are higher-risk investments, such as equities, which are expected to deliver higher investment returns in the long term, but can drop or rise in value suddenly in the short term. They include:

- **Equities** – shares in companies.
- **Hedge funds** – designed to reduce risk and preserve the value of the investment whilst keeping a consistent, reasonable level of return.
- **Property** – provides returns from both rental income and change in capital value.
- **Private equity** – shares in companies not traded on a stock exchange.

### Matching assets

These are investments that aim to 'match' the value of the Fund's pensioner liabilities and which are more stable in value. They include:

- **UK Index-linked bonds** – pay returns linked to inflation.
- **Corporate bonds** – loans to companies.
- **Cash funds** – provide returns through the payment of interest and can still go up and down in value.

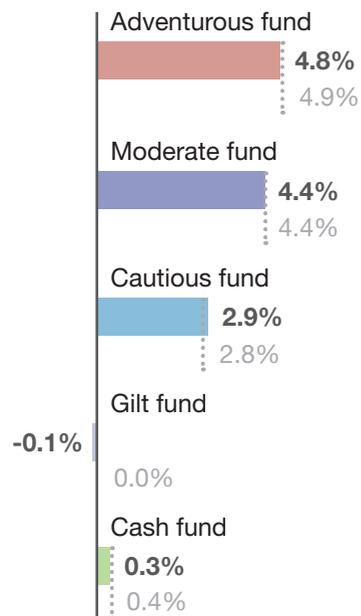
Under its current investment strategy, the Trustee aims to gradually reduce holdings in equities to around 15% by 31 December 2032. At the same time, investments in 'matching plus' assets, such as company bonds, will increase to around 55%. The current allocation to UK index-linked bonds will be maintained.

# Lane 1 and the Starter Lane

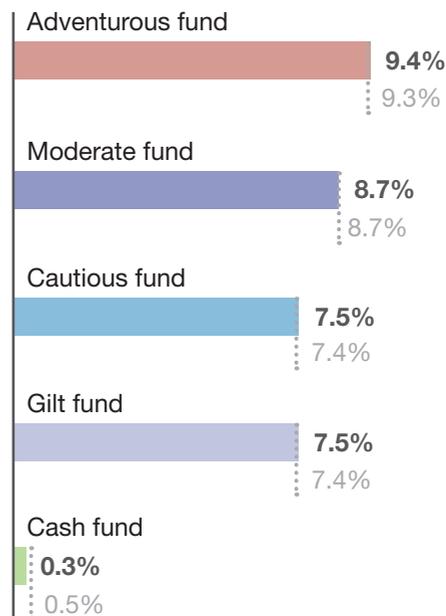
The chart below shows the performance of the Lane 1\* and Starter Lane\* funds compared with the benchmark. If you are invested in one of the Pathway options, you may be invested in one or more of the funds below. If you are in the Starter Lane, you are invested in the Moderate Pathway, which is made up of the Moderate fund, the Cash fund and the Gilt fund, depending on how far you are from retirement.

\*Lane 1 and the Starter Lane are defined contribution sections of the Fund, introduced in 2010 and 2013 for current employees.

## Year to 31 December 2015



## 1 August 2010 – 31 December 2015\*\*



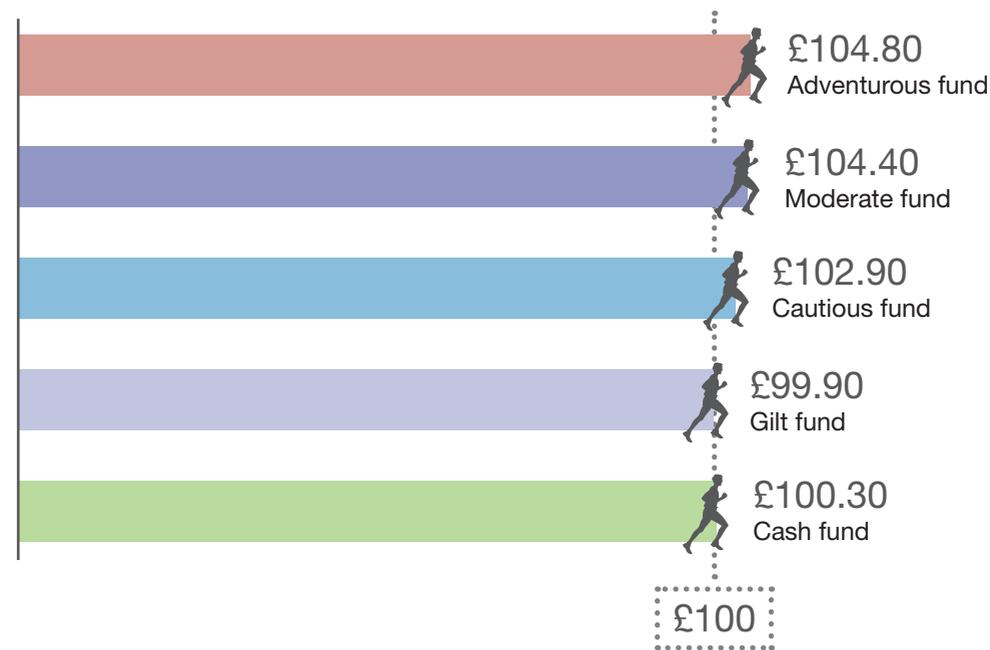
\*\*Annualised returns

**Benchmark** – a reference measure used for comparative purposes, in this case the investment return against which an investment fund is measured.

For more information about the Lane 1 funds, updated performance information and details of the charges for the different investment options, go to the investments section of our website (see back page).

## What the performance figures mean to you

Here's how much you would have at the end of the year if you had invested £100 in each of the five funds at the start of the year:



Remember that past performance is not an indicator of future performance and that the value of funds can go both up and down. When saving for your retirement, long-term performance (i.e. over several years) is more important than short-term performance (e.g. over 12 months).

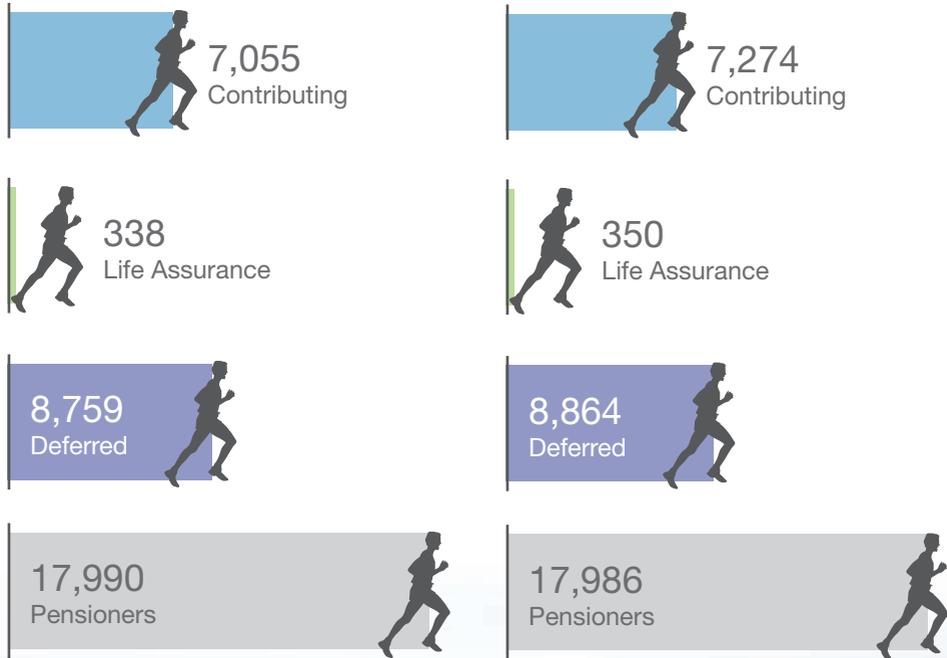
All the figures shown are net of the fees i.e. after the investment management charges have been deducted. Note, if the returns achieved are less than the charge applied, the value of your investment will reduce.

# Membership

The graph below shows the membership of the Fund at 31 December 2015 compared with the membership at 31 December 2014.

2015

2014



# Pension increases

(for pensioners and deferred pensioners)

These increases do not apply to pensions purchased with accounts built up in Lane 1 or the Starter Lane.

Increase for pensioners	
For pension earned up to 5 April 2006: 1.3%	For pension earned from 6 April 2006: 1.3%

Based on RPI movement to 31 January 2016 of 1.3%.

Increase for Purina pensioners*	
For pension earned up to 5 April 2006: 1.2%	For pension earned from 6 April 2006: 1.2%

Based on RPI movement to 31 December 2015 of 1.2%.

Increase for deferred members	
For pension earned up to 5 April 2009: 0.3%	For pension earned from 6 April 2009: 0.3%

Based on CPI movement to 31 January 2016 of 0.3%.

\* Pensioner members of the former Purina UK Pension Plan.



# Nestlé consultation

## Future benefit changes for active and new members

Last summer Nestlé entered into consultation with its current employees and active members of the Fund over a proposal to make changes to the benefits provided by the Fund.

The proposed changes would affect the way in which benefits build up in future for both current active members of the Fund and new employees after a specified date, **but would not have any impact on deferred and pensioner members.** The Trustee Board was not involved in the consultation process, as this is a process that involves Nestlé, its employees, the unions and the representative bodies.

Going forward, the Trustee Board will be asked to consider a revised proposal and whether to agree to amend the Fund Rules. In early June Nestlé shared its current thinking on benefit design with the Trustee Board and is now seeking the Board's initial agreement to some proposed broad design features, prior to launching a second period of consultation with employees later this year. The Trustee Board would then be asked for agreement to any amendments to the Rules to reflect Nestlé's final proposal following the second period of consultation.

Following the end of the first period of consultation, Nestlé approached the Trustee Board in April to ask for its consent to close Lane 2 of the Fund to new employees commencing employment with Nestlé on or after 1 July 2016. The Trustee Board has agreed to amend the Rules to reflect this change.

In deliberating Nestlé's proposals, the Trustee Board takes advice from its independent professional advisers taking account of all the relevant information and circumstances.

# Spotlight on the Trustee Board

**The Fund is managed by a Trustee Company, Nestlé UK Pension Trust Ltd. There are ten Trustee Directors on the Trustee Board, five appointed by Nestlé UK and five elected by active and pensioner members.**

The Directors are responsible for running the Fund in the best interests of its members. They meet four times a year, although some also attend specialist sub-committees, which meet quarterly in advance of the main Board meetings.

Since last year's Pensions News, there have been a number of changes to the Board, so we thought we'd take the opportunity to explain the reasons for these changes and to introduce the current Directors.

## **Member-Nominated Trustee Directors**

Last year, the terms of office of Bill Pringle and Sean Conricode, two of our Member-Nominated Trustee Directors (MNDs), came to an end. Bill decided to step down at the end of his term of office in July, while Sean stood again and was re-elected for a second term of office. Marcus Barry, a new MND, was also elected to the Board.

## **Independent Trustee Directors**

At a time when managing pension schemes is becoming ever more complex due to the increasing burden of legislation, greater diversity of investment products and large scheme deficits, many large UK companies are choosing to appoint independent trustees. Appointing a professional trustee can bring valuable expert experience to a Trustee Board. In April 2015, Nestlé therefore decided to appoint PAN Governance LLP, represented by Steve Delo, to the Board.

Given the size of the Fund, earlier this year, Nestlé also decided to appoint an independent Chairman of the Board. As a result, in February, Paul Vernon stepped down both as Chairman and Trustee Director and Steve Delo was invited to take on the role of Chairman.

## **Nestlé-appointed Trustee Directors**

Last October, Alison Fisher left Nestlé's employment and resigned from the Board. As a result, Nestlé appointed Malcolm Burridge and Irene Donaldson to the Board in February, filling the vacancies created by Alison and Paul.

# Meet your Trustee Directors

Here you can read all about your current Trustee Directors.



**Marcus Barry**  
Employee Member

Marcus is a Business Manager for 1st Choice Sales based in Gatwick and has worked for Nestlé for nearly 30 years. Prior to joining Nestlé, he worked for two years within the occupational pensions industry. Marcus joined the Trustee Board as a Member-Nominated Trustee Director in 2015.



**Steve Delo**  
Independent Trustee

Steve is Chief Executive of PAN Governance LLP and former President of the Pensions Management Institute. The PAN Group provides trusteeship and governance services to all types of approved pension schemes. Prior to joining PAN, he held senior roles in pension consulting and asset management. Steve joined the Trustee Board in May 2015 and was appointed Chairman in February 2016. He is also chairman of the Valuation and Defined Contribution Committees.



**Malcolm Burridge**  
Employee Member

Malcolm is the Finance Manager for Nestlé Professional UK & Ireland based in Gatwick. He has worked for Nestlé in a variety of Finance roles for over 15 years, including Group Finance, Supply Chain Finance and the LGO ('Local Globe Organisation'). He joined the Trustee Board as a Nestlé-appointed Trustee Director in February and is excited to work on the big challenges workplace pensions face in the UK. Malcolm is Chairman of the Governance & Compliance Committee.



**Irene Donaldson**  
Employee Member

Irene is a Learning & Development Specialist based in Gatwick. She has worked for Nestlé UK Ltd for 31 years, in various roles in Marketing, Sales and Human Resources. Irene joined the Trustee Board as a Nestlé-appointed Trustee Director in February, bringing her experience of issue analysis, decision making and communications, all key to the complex role of the Trustee in today's economic climate.



**Sean Conricode**  
Employee Member

Sean has worked for Nestlé in York in a variety of technical and production roles for 39 years and is now Nestlé's Product Specialist for Chocolate in the Innovation & Renovation team. He has been a Member-Nominated Trustee Director since 2008 and was returned for a second term of office in 2015.



**Barbara Firth**  
Pensioner Member

Barbara worked for Nestlé and Rowntree in York for over 28 years. She was secretary to the Managing Director of the Confectionery Division, and briefly ran the Joseph Rowntree Library before moving into the Human Resources function. She retired from Nestlé to set up a boutique Bed & Breakfast with her husband. Barbara joined the Trustee Board in 2014 when she wound up their business.



**Tim Orme**  
Pensioner Member

Tim worked for Nestlé's specialist pension investment and advisory teams in a variety of roles based in York and Switzerland for over 18 years until taking early retirement in 2009. He joined the Trustee Board as a Nestlé-appointed Trustee Director in December 2010 and is Chairman of the Investments Committee.



**Steve Robinson**  
Employee Member

Steve has worked for Nestlé in York for over 23 years in a variety of engineering and production roles. He joined the Trustee Board as a Member-Nominated Trustee Director in 2014. Prior to that he spent two years as a Member Representative on the Fund's forum for employee members.



**George Tutill**  
Pensioner Member

George lives in York and worked for Nestlé and Rowntree in York for 45 years. He is our longest serving Member-Nominated Trustee Director and has been on the Trustee Board for over 25 years – first as an active member before his retirement in 2003 and then as a pensioner member since 2004. He is a member of the TUC Pensioners Forum and the GMB Retired Members Association, both regionally and nationally.

**Jean-François Vaccaro**  
Employee

Jean-François works for Nestlé's specialist pension advisory team based in Switzerland. He joined Nestlé in 2007 and has been a member of the Trustee Board since 2014. Jean-François is due to step down from the Board shortly and Nestlé is in the process of appointing an independent trustee to replace him on the Board.

You can always find up-to-date details of the Trustee Board on the Fund website (see back page for details).

# The Fund advisers

**Nestlé UK Pension Trust Ltd and its advisers manage the Fund on your behalf.**

## Administration:

### Nestlé Pensions

- Andrew White**  
(Head of Group Pensions)
- Heather Anderton**  
(Pensions Strategy & Projects Manager)
- Jayne Atkinson**  
(Pension Investments Manager)
- Andrew Bayliss**  
(Trustee Governance & Compliance Manager)
- Rob Brown**  
(Pensions Operations Manager)
- Sarah Drake**  
(Pension Communications Delivery Manager)
- Hassan Shirwani**  
(Pensions Finance Manager)
- Peter Tait**  
(Head of UK Pension Investments)

## Actuary:

**Lane Clark & Peacock LLP**  
Mr J D Jones MA FIA

## Auditors:

**KPMG LLP**

## Bankers:

**HSBC Bank plc**

## Communication Consultants:

**Anthony Hodges Consulting Ltd**

## Custodian:

**The Northern Trust Company**

## Investment Managers:

**Nestlé Capital Management Ltd**  
**Fidelity Worldwide Investment**  
plus various others

## Investment Consultants:

**Nestlé Capital Advisers, Redington Limited**  
(Defined Benefit)  
**PricewaterhouseCoopers LLP**  
(Defined Contribution)

## Solicitors:

**Sacker & Partners LLP**



## Contact us

If you have any queries about your benefits or would like a copy of the full Trustee Report and Accounts, Valuation Report, Statement of Funding Principles, Recovery Plan, Schedule of Contributions or Statement of Investment Principles, please contact us.

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(password: nestlepensions)

**Quick Response code**

If you have a smartphone, you can download a free Quick Response (QR) code app. If you scan this code, you will be able to access [www.nimpensions.co.uk](http://www.nimpensions.co.uk)

