

Short Annual Report

Return of 9.5%, but future increases uncertain

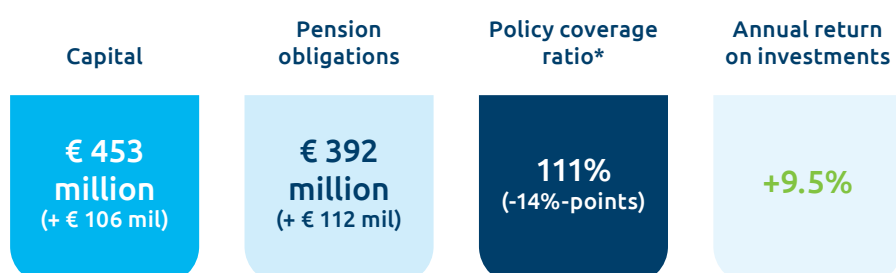
After the all-round disappointing start of 2020 due to the corona virus, Forward managed to finish the year relatively well. Partly due to an investment return of 9.5%, the pensions were able to be partially increased on 1 January 2021 by 3.27% for Unilever employees. This was largely paid for from the 'indexation supplement deposit', which was paid by Unilever when Forward was founded but is now empty. This means that from next year onwards, increases will depend entirely on the financial situation. On the back we explain that the chance of (full) increases in the coming years has reduced in part due to the recent CLA amendment.

Kristian Vleugels

Supply Chain Finance Lead Tea Company & Board member Unilever Pension Fund



Our situation at the end of 2020



forward

Kring van Unilever APF

* Coverage ratio = capital divided by pension obligations.

Policy coverage ratio = average coverage ratio of 12 consecutive months; this is decisive for important decisions (on pension increases for example).

Hedging risks pushes up return

At the end of 2020, Forward's investment portfolio was divided into two parts, see right. Last year, Forward achieved a positive result on both parts:

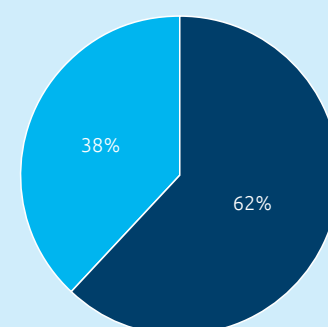
- Diversified growth portfolio: **0.9%**
- Stable return portfolio: **3.3%**

In addition, a result of 7.5% was achieved on the hedging of the so-called interest rate risk. Taken together this resulted in a total return of 9.5%.

This is how interest rate hedging works

If the interest rate falls, we must have more money available 'in cash' to be able to pay all future pensions. We limit that risk by stipulating in contracts that if the interest rate falls, we still retain the right to the agreed (higher) interest rate. This worked out well for 2020, when interest rates fell sharply in the first months.

Asset mix at the end of 2020



- Diversified growth portfolio incl. shares and listed real estate
- Stable return portfolio incl. government bonds and mortgages

New CLA: Reduced chance of (full) pension increase

The pension you are accruing with us reduces in value over time. This is because prices are rising. That is why we try to increase your pension every year (we call such an increase 'indexation'). Thanks to Forward's financial situation, this has been successful so far. However, partly due to the considerably lower pension contribution that was recently agreed in the collective labour agreement, the chance of (full) indexation will decrease in the coming years.

When Forward was founded in 2015, Unilever and the trade unions agreed on a pension contribution that was linked to the interest rate. The total required contribution that Forward determined on this basis was in the first years around 40% of the pension basis (salary minus threshold due to the Dutch State Pension – AOW). Of this, employees paid 3% and Unilever the rest – see the table opposite.

Instead of 56%, Unilever now pays 34% contribution

Due to the sharp drop in interest rates, Unilever's pension contribution rose to almost 50% in 2020. In 2021 it would be more than 56%. This was the reason for Unilever to put the contribution as an item on the agenda for CLA negotiations. Ultimately, this led to a new agreement between Unilever and unions: from now on the contribution calculation will be based on the expected return on investments. This will significantly lower Unilever's contribution. In the coming years, until the new pension system comes into effect, the contribution will be fixed at 34%. This is sufficient to finance the annually intended pension accrual for all employees, but the lower contribution rate does have consequences for the indexation expectation.

Less contribution = less cash = less chance of indexation

The contribution reduction means that Forward will receive about €30 million less from Unilever in 2021. Compared to Forward's capital – €453 million at the end of 2020 – this is a significant reduction. As a result, the financial situation will deteriorate as will the (policy) coverage ratio (see right). And a lower coverage ratio means a smaller chance of (full) indexation in the coming years.

'Indexation is important because otherwise your pension will be worth less'

Forward's goal is an annual indexation for employees that is equal to the rise of the CLA-wages at Unilever. In 2021, this rise is 2%. Even though the policy coverage ratio rose from 111% to 116% in the first six months of 2021 (due to, among other things, good returns), that is not enough for full indexation. Based on the current situation, Forward can only grant a portion of that 2% as indexation on 1 January 2022. See the thermometer on the right.

Level of contribution

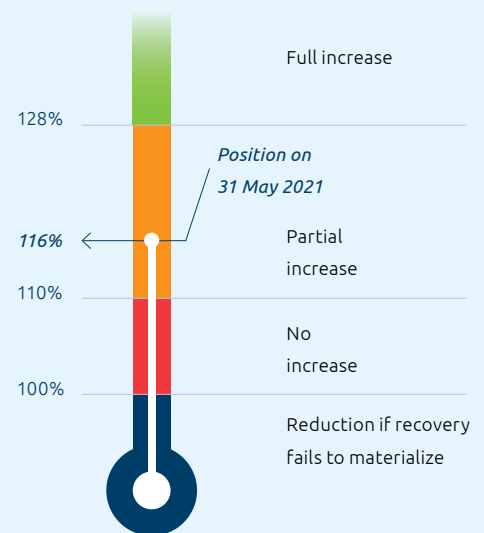
Year	Total contribution %	Unilever	Employees
2015	36.5%	33.5%	3%
2016	37.2%	34.2%	3%
2017	43.5%	40.5%	3%
2018	38.4%	35.4%	3%
2019	39.1%	36.1%	3%
2020	52.2%	49.2%	3%
2021	37%	34%	3% *

* Unilever is temporarily compensating half of this

What is a (policy) coverage ratio?

A pension fund's financial situation is expressed in the coverage ratio. Our coverage ratio is determined by our capital on the one hand and our pension obligations on the other. The policy coverage ratio is the average coverage ratio of the last 12 months.

What increase at which policy coverage ratio?



More about 2020

You will find all the details relating to the past year in our full 2020 annual report. You can find this report (only in Dutch) via:

[Unileverpensioenfonds.nl/Forward](https://unileverpensioenfonds.nl/Forward) > Documenten > Publicaties > Jaarverslagen

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