



# 2014 IN BRIEF

CONTROLLED CHANGE

Stichting Shell Pensioenfonds



'2014 in brief' brochure gives a summary of the course of events and key financial figures of Stichting Shell Pensioenfonds (the Pension Fund). This publication has not been verified by an external auditor and no rights can be derived therefrom. The companies in which Royal Dutch Shell plc has direct or indirect participating interests are separate legal entities with their own identity. In this brochure, 'Shell' is used as a collective term to refer to the various Shell employers and joint ventures affiliated with the Shell Pension Fund.

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# FUNDING RATIO

The funding ratio is the ratio between the current assets (the funds held by the Pension Fund) and the pension liabilities (the funds required by the Pension Fund).

The funding ratio indicates whether we have sufficient funds to pay all pensions accrued to date, now and in the future. The funding ratio is published once a month. The funding ratio was 124% on December 31, 2014.

## Assets

The Pension Fund's assets rose by € 2,817 million from € 22,439 million to € 25,256 million. The increase was mainly due to a positive investment result of 13.4%.

## Provision for pension liabilities

The Pension Fund's provision for pension liabilities rose by € 3,265 million from € 17,120 million to € 20,385 million. The most important cause is the fall in



interest rates. A falling interest rate results in an increase in the amount of money the Pension Fund needs in order to pay pensions. Interest fell from 2.74% to 1.84% in 2014.

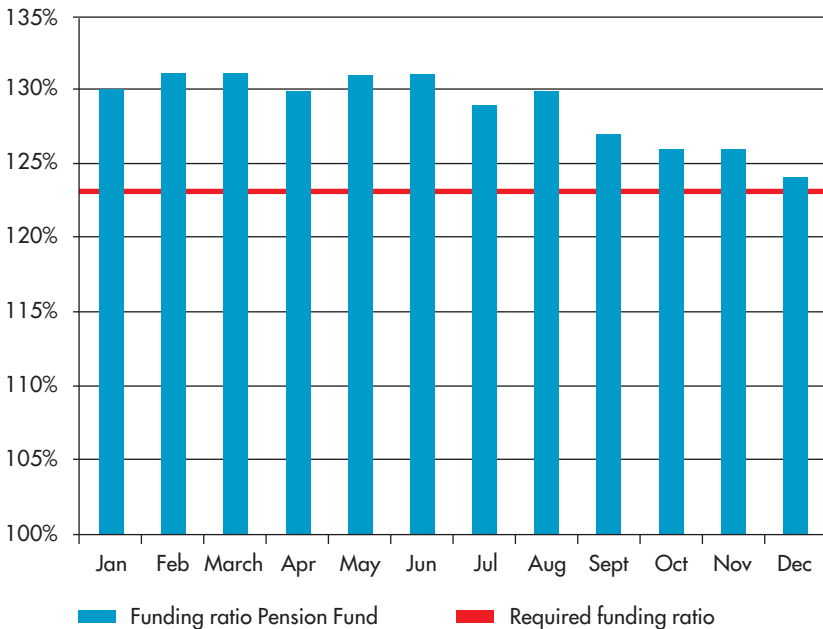
**Own assets**

The Pension Fund's own assets fell by € 448 million from € 5,139 million to € 4,871 million. This is because the provision for pension liabilities rose more than the assets of the Pension Fund.

The fall in own assets was disadvantageous for the funding ratio, which fell from 131% at the end of 2013 to 124% at the end of 2014. At the end of 2014, the funding ratio was higher than the required funding ratio of 123%.

More information about the Pension Fund's assets, liabilities and funding ratio can be found on the website: [www.shell.nl/pensioenfondsen/funding](http://www.shell.nl/pensioenfondsen/funding)

**Development of funding ratio during 2014**





## **NEW FINANCIAL ASSESSMENT FRAMEWORK**

From January 1, 2015 a new Financial Assessment Framework (nFTK) applies. The new Financial Assessment Framework is part of the Pensions Act and stipulates the statutory financial requirements for pension funds.

In order to ascertain whether a pension fund holds sufficient buffers to offset fluctuations in yield, the so-called 'policy funding ratio' must be examined according to the regulations in the nFTK. The policy funding ratio is the average of the funding ratios over the last 12 months. Under the terms of the nFTK, the Pension Fund is required to have 128% own assets.

### **Recovery Plan**

On March 31, 2015, the Pension Fund's policy funding ratio 126%. As a result, the policy funding ratio is lower than the required level of 128%. This is then referred to as a reserves shortfall. The Board will draw up a recovery plan, which they will submit to the Dutch Central Bank (De Nederlandsche Bank, DNB) before July 1, 2015.



# INVESTMENT RESULT

Economic recovery was ongoing in 2014 and persisted, particularly in the second half of 2014.

One of the themes in 2014 was the concern of central banks about deflation, a fall in prices that leads to investments and purchases being postponed. A possible consequence of this is a long-term economic relapse. By keeping interest rates extremely low and creating significant liquidity, central banks are trying to stimulate the economy. As a result, the euro loses value with respect to other currencies. The drop in value of the euro makes exports cheaper and therefore more competitive, and this is favourable for economic growth. However, imports become more expensive.

Another consequence of the available liquidity is clearly visible on the capital markets: rising prices of equities and bonds for instance, with investors looking for yield also making higher-risk investments.

An investment result of 13.4% was achieved over 2014 (in 2013: 7.0%), slightly lower than the benchmark result. The Pension Fund invests in equities, fixed-income investments and alternative investments. In the table below, you can see how the investments and results achieved in 2014 were distributed. Further information about investments is to be found on the website: [www.shell.nl/pensioenfondsen-investment](http://www.shell.nl/pensioenfondsen-investment). Detailed financial information can be found in the Annual Report. The Annual Report is also available on the website.

## Net results and distribution of investments in 2014

Returns are net of exchange-rate hedging and after deduction of asset management costs

	Strategic distribution of investments in 2014 (%)	Returns in 2014 (%)	
		Pension Fund	Benchmark
Equities	36.4	12.0	11.2
Fixed-income investments	46.9	8.5	8.7
Alternative investments	16.7	14.7	18.6
<b>Total</b>	<b>100.0</b>	<b>10.7</b>	<b>11.3</b>
Interest-rate hedging fixed	-	10.3	10.3
Interest-rate hedging variable	-	-4.2	-4.2
<b>Total returns</b>		<b>13.4</b>	<b>14.0</b>

# INDEXATION AND CONTRIBUTIONS IN 2014

## Indexation

The Board decided to increase the pensions in payment by 0.4% as of July 1, 2014. Price developments over the period from March 2013 to March 2014 were also 0.4%. As a result, the ambition of the Pension Fund was realised.

As of July 1, 2014, catch-up indexation was applied equal to half of the 2.2% indexation that was not granted in 2012, over and above the regular indexation. The indexation arrears is now still 1.1%. The remaining indexation that was not granted in 2012 can still, partly

or in its entirety, be applied up until the end of 2017 under the current policy. The financial position of the Pension Fund must make this possible. No reserves are set aside for this conditional indexation and no contributions are paid. The Pension Fund pays the future increases to your pension from the return on investment. Due to an increase already allocated and the expectations for the next few years, you will not immediately be entitled to increases in the future.

The Pension Fund's indexation policy is outlined on the website: [www.shell.nl/pensioenfonds-en/indexation](http://www.shell.nl/pensioenfonds-en/indexation).

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## Contributions

The Pension Fund strives to achieve its objective by means of reasonable and stable contributions. The contributions paid by the employer and participants are invested.

The employee's (participant's) contribution is laid down in the Regulations: The contribution paid by the employer depends on the Pension Fund's financial situation. The Board determines the level of contribution payable by the employer, in consultation with the certifying actuary.

Over the past year the employer's contribution amounted to 41.6% of the salary sum. In the first half of the year, the contribution payable by participants was 2% on the salary component up to € 78,700 and 8% on the salary component above that limit. As from July 1, 2014 the limit was set at € 80,300. On average, participants paid 3.4% contribution while the total pension contribution was 45%.

For more information see: [www.shell.nl/pensioenfonds-en/funding](http://www.shell.nl/pensioenfonds-en/funding)



# RESPONSIBLE INVESTMENT

**The Pension Fund pursues a responsible investment policy and examines the business operations of the companies it invests in.**

The Pension Fund has the right to vote at the general shareholders' meetings of these companies. It endeavours to exercise these rights in as many companies as possible, except with regard to shares in Royal Dutch Shell plc. For practical reasons, the Pension Fund usually votes by proxy without personally attending the general shareholders' meetings. If required, the Pension Fund enters into discussion with company managers regarding such matters as their business, social and environmental policies. The Pension Fund uses a specialised service provider for both activities.

The Pension Fund voted by proxy at 7,077 shareholders' meetings in 2014. At 3,073 of these meetings, one or more resolutions were opposed. Discussions were held with 632 companies about various subjects, including: management structure, relationships with employees and the community, health and safety, child labour, controversial weapons, corruption, climate change and environmental subjects.

The 'Policy for Responsible Investment' is available from [www.shell.nl/pensioen-fonds-en/responsibleinvestment](http://www.shell.nl/pensioen-fonds-en/responsibleinvestment), and the Pension Fund publishes an update on the execution of this policy on a quarterly basis.



# OPERATING COSTS

The operating costs of pension funds continued to be a high-profile subject for politicians, supervising authorities, the media and the general public in 2014.

In 2014 the Pension Fund Code of Governance took effect. The Code of Governance sets standards for the way in which pension funds organise their assignment of duties. It also includes a passage about operating costs. For instance, the Board must report on the operating costs of the pension scheme in the Annual Report. The Board provides insight into the operating costs, insofar as the data is available, in accordance

with the recommendations of the Pension Federation.

The operating costs consist of pension management, asset management and transaction costs.

- **Pension management costs** - these include the costs of pension administration, communication, the Board, financial management costs and projects. In 2014 these costs amounted to € 223 per contributing participant and retiree (2013: € 220).
- **Asset Management costs** - in a nutshell these are the management costs of investments, including performance-related remuneration, custody fees and



accounting and legal advice fees. In 2014 these costs amounted to € 189 million (2013: € 193 million). The costs largely consist of (estimated) performance fees relating to alternative investments – private equity, indirect real estate and hedge funds. In the case of private equity and indirect real estate investments the fees allocated to a year are influenced in part by performance over the expired total term in which the yield must first exceed the agreed minimum yield for investors before the manager is entitled to performance fees.

- **Transaction costs** - these are the costs incurred by buying and selling of

investments. These costs are part of the price of the investments. Transaction costs are estimated in accordance with the Pension Federation's recommendations, and amount to € 22 million for 2014 (€ 23 million for 2013). The slight decrease in costs is due to the lower purchase and sales values of fixed-income investments. The transaction costs of equities are almost unchanged.



# COMMUNICATION & ORGANISATION

In 2014 a number of substantial changes took place, which were communicated to stakeholders in various ways.

## Communication

Examples include communications about changes to the pension scheme from January 1, 2015. A personal letter indicated the impact on future pension accrual upon transition to the Shell average salary scheme. Participants on incomes that exceed the threshold for gross pension accrual as set by Government, received a personal message about the impact of this change on their pensions. Furthermore they received extensive information about the option to participate in the new Shell net pension scheme. All communications about the changes to the pension scheme were developed and effected in close co-operation with Shell Nederland.

All this took place in addition to regular, recurrent communications, such as newsletters and the BOP survey. The national Benchmark Survey Platform (BOP) was conducted for the third time at the end of 2014. In this online survey active participants and retirees are asked for their opinion about the Pension Fund's communications and

service. The Pension Fund's scores were above the national average and were almost identical to those of 2013. Furthermore, the survey revealed that there is increasing need for an annual check, a specialist at the employing company and a pension mini-course. The Pension Fund is going to investigate how the participants' changing need for information can be met.

BOP is a pension sector initiative and provides a countrywide comparison of the way in which pension funds communicate. The Pension Fund will participate in the survey again in 2015.

## Organisation

The Pension Fund administers the pension scheme for Shell in the Netherlands and has assigned its duties to Shell Pensioenbureau Nederland (SPN) and Shell Asset Management Company (SAMCo). SPN has been appointed as the Managing Director of the Pension Fund, it takes care of day-to-day matters and maintains contact with participants and retirees. SPN also supports and advises the Board on pension policy matters, asset management supervision and risk management. The Board has ultimate accountability. SAMCo manages the

Pension Fund's assets and advises the Board on portfolio investment matters. Investment proposals are initially discussed in the Investment Committee, the Board subsequently makes the decisions.

The Board of the Pension Fund reports to the Accountability Council annually about the previous year's policy and the manner in which it was pursued, and about policy choices for the future. In addition the Accountability Council is entitled to give advice.

The Board of Supervisors monitors the Board's policy and the general state of affairs at the Pension Fund. The Board of Supervisors also advises the Board.

At [www.shell.nl/pensioenfondsen/organisation](http://www.shell.nl/pensioenfondsen/organisation) you will find the composition of the various bodies and committees along with their tasks and responsibilities. This composition changed on July 1, 2014, as a result of the Dutch Pension Fund Governance Reinforcement Act entering into force.



## PENSION FUND CODE OF GOVERNANCE

The new Pension Fund Code of Governance entered into force on January 1, 2014. The code is the successor to the Principles for Pension Fund Governance from 2005. The code was drawn up by the Pension Federation and the Dutch Labour Foundation and focuses on the three administrative core functions: Managerial control, Supervision and Reporting.

It is mandatory to comply with the code or to explain how and why sections have been deviated from. The code sets standards for pension fund governance, which further enhances transparency in this area. The code contains provisions

regarding the role of the various bodies within a pension fund. The code elaborates on matters such as appointments and meeting terms of office. Matters such as risk management, remuneration, diversity and responsible investment are also discussed.

The summary of compliance with the Pension Fund Code of Governance is updated each year as part of the permanent management cycle for the Board. The summary shows that the Pension Fund complied with the code almost entirely in 2014. Deviations from the code are explained in the 2014 Annual Report.

## DUTCH PENSION FUND GOVERNANCE REINFORCEMENT ACT

The Pension Fund Governance Reinforcement came into effect on July 1, 2014. This Act sets new criteria for pension fund governance. One of the aims of this Act is sound representation of all stakeholders. The Act also aims to streamline organisations and duties, broaden expertise and reinforce internal supervision.

The new Act resulted in three changes for The Pension Fund:

- Two retiree representatives now form part of the Board.

- The Members' Council and Accountability Council have merged into a new Accountability Council, while retaining its broad advisory role. The new Accountability Council has fourteen members: eight representing the pension beneficiaries, four representing the active participants and two representing the employing companies.
- The Internal Supervision Committee has transformed into a Board of Supervisors (with four external members), with several formal authorities.



## STATUTORY CHANGES AS OF 1 JANUARY, 2015

The pension scheme of the Pension Fund was amended as of 1 January, 2015, as a consequence of new pension legislation. Government has implemented fiscal measures to economise further on pension accrual in the Netherlands.

A good pension scheme is important to Shell. The amended scheme makes optimum use of the opportunities offered by the tax legislation in force from January 1, 2015.

The two most significant changes to the pension scheme of the Pension Fund as of 1 January 2015:

- pension is now accrued under the Shell average salary scheme;
- participants may accrue gross pension up to a threshold of € 92,600 (amount for 2015) under this average salary scheme.

There is a voluntary Shell net pension scheme for participants whose pensionable salary exceeds € 92,600.



## INTRODUCTION OF THE SHELL NET PENSION SCHEME

Since January 1, 2015, participants whose pensionable salary exceeds € 92,600 (amount for 2015) per annum may save towards a pension from their net income (after deduction of wage tax). This is a measure introduced by the Government. Therefore Shell has developed a net pension scheme, whereby participants whose salary exceeds this threshold can also accrue pension capital on that part of their salary.

The net pension scheme is a defined contribution scheme. Shell Nederland Pensioenfonds Stichting (SNPS) administers the net pension scheme. Information about the net pension scheme is on the SNPS website:

[www.snps.nl/uk/shell-net-pension](http://www.snps.nl/uk/shell-net-pension)

## HISTORICAL OVERVIEW

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Active participants	10,956	11,327	11,182	10,879	10,933	11,517	11,690	11,655	11,226	10,589
Pensions in payment	19,759	19,646	19,584	19,522	19,471	19,562	19,554	19,509	19,300	19,003
Former participants	6,000	6,319	6,458	6,717	6,855	6,616	6,701	6,639	7,010	7,458
<b>Total</b>	<b>36,715</b>	<b>37,292</b>	<b>37,224</b>	<b>37,118</b>	<b>37,259</b>	<b>37,695</b>	<b>37,945</b>	<b>37,803</b>	<b>37,536</b>	<b>37,050</b>
Assets (EUR million)	25,256	22,439	21,171	18,247	17,445	15,473	10,598	19,257	18,570	16,153
Provision for pension liabilities (EUR million)	20,385	17,120	17,722	16,419	14,183	12,978	13,213	10,679	11,256	11,120
Funding ratio (%) <sup>1</sup>	124	131	119	111	123	119	80	180	165	145
Total returns (%)	13.4	7.0	17.0	6.5	14.8	27.5	-43.3	5.9	17.3	20.4
Indexation of life-long pensions (%)	0.4*	1.5	0	1.9**	0.8	0	2	1.6	1.4	1.4

<sup>1</sup> Since 2005 the funding ratio has been calculated in accordance with Financial Assessment Framework rules.  
Since 2012 the funding ratio has been calculated using the average interest rate over the preceding three months.  
The interest curve used for this is the so-called UFR, as prescribed by DNB.

\* Excluding 1.1% catch-up indexation from 2012, which was granted in 2014

\*\* Excluding 1.5% catch-up indexation from 2009, which was granted in 2011