



# 2015 IN BRIEF

CHANGE IS A CONSTANT FACTOR

**Stichting Shell Pensioenfonds**



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## POLICY 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 to pay all pensions accrued to date, now and in the future).

The funding ratio indicates whether we have sufficient funds to meet all these liabilities. 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 of the new Financial Assessment Framework (nFTK) as of January 1, 2015. The policy funding ratio is the average of the funding ratios over the last 12 months. As a result, the policy funding ratio is less volatile. The funding ratio and the policy

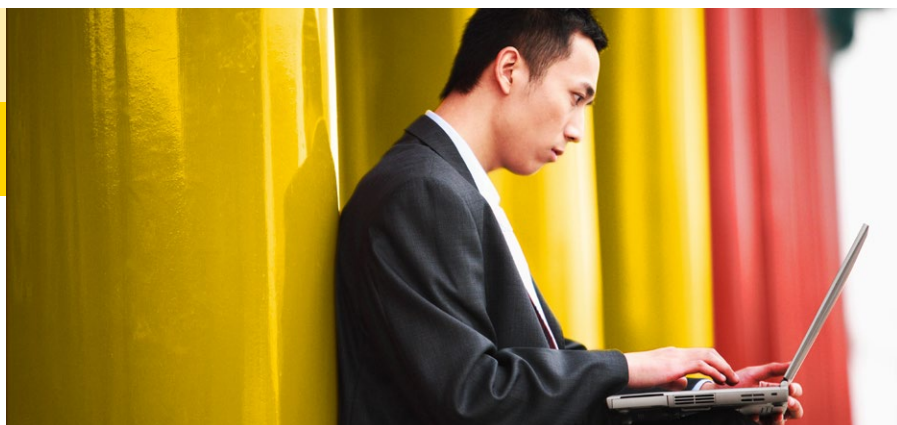
funding ratio are both published once a month. The funding ratio was 124% on December 31, 2015. The policy funding ratio was 123%.

### Assets

In 2015, the Pension Fund's assets rose by €780 million from €25,256 million to €26,036 million.

### Provision for pension liabilities

The Fund's provision for pension liabilities rose by €698 million from €20,385 million to €21,083 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 in the future. Interest fell from 1.84% to 1.66% in 2015.



### Own assets

In 2015, the Pension Fund's assets rose by €82 million from €4,871 million to €4,953 million. This is because the assets rose more than the Pension Fund's provision for pension obligations. The slight rise of own assets was beneficial for the funding ratio.

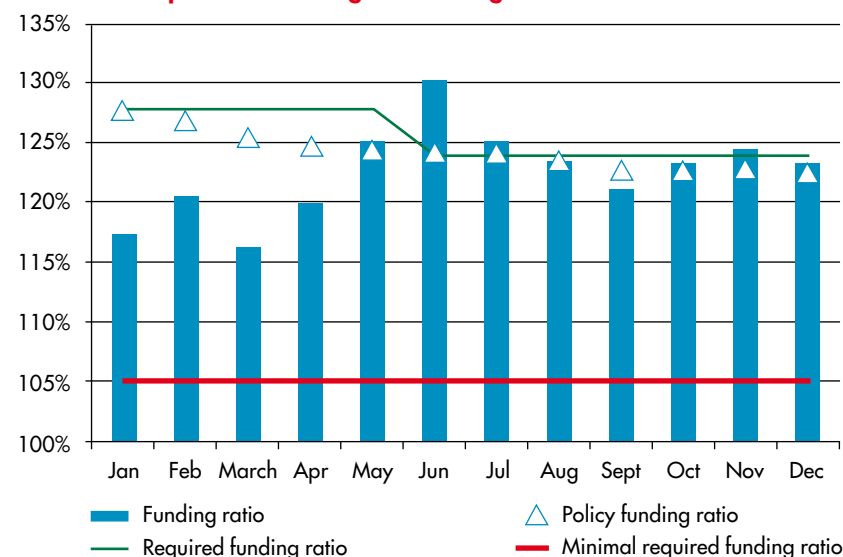
More information about the Pension Fund's assets, liabilities and funding ratio can be found on the website: [www.shell.nl/pensioenfonds-en/funding](http://www.shell.nl/pensioenfonds-en/funding)

## RECOVERY PLAN

At the end of 2015 the policy funding ratio was higher than the minimum required funding ratio (105%), so there was no question of insufficient coverage. The statutory required level for SSPF is 124%. In 2015 the policy funding ratio fell below this required level, which means that there is a reserves shortfall.

In the event of a reserves shortfall, pension funds are required to draw up a recovery plan. The Pension Fund drew up a recovery plan in 2015, which it submitted to the supervising authority De Nederlandsche Bank (DNB). The Pension Fund has a healthy financial structure and the expectation is that the reserves shortfall can be eliminated within 10 years without taking additional measures. DNB has not raised any objections to the submitted recovery plan.

Development of funding ratio during 2015



# INVESTMENT RESULT

In 2015, volatility returned to the financial markets. Volatility is the degree of movement in the price of a share or another financial product. At the start of the year, this was mainly the result of continuing concerns about the situation in Greece. Interest also dropped to levels that had not been experienced before (under 0.7% in April) and subsequently rose again within two months to around 1.8%.

A relatively small depreciation of the Chinese Yuan caused a shudder in the markets in August and even heralded the greatest opening loss of the Dow Jones in history. As a consequence of this turmoil, the Fed (the Federal Reserve, the central banking system of the United States) did not raise the interest rate in September.

One of the themes in 2015 was the development in the currency markets. For instance, not only did the euro lose value against the US dollar and the Swiss franc, but by far the hardest hit were the currencies of emerging countries – and in particular the countries that are dependent on the export of raw materials. Concerns about weakening growth worldwide, especially in China, and partly as a result of this, sharply declining prices of raw materials and the threat of an



interest-rate rise in the United States exposed the vulnerability of these economies once again. In addition, the policy of the central banks to stimulate inflation by setting their most important policy interest rates at or close to zero or even negative, had consequences in the fixed-income markets. Led by Switzerland, other governments in the Eurozone followed suit, including Germany, France, Italy and the Netherlands, and investors there had to pay to lend out money to these governments (!); the yield on these government bonds became negative.

This extraordinary phenomenon ultimately occurred in the market for corporate bonds as well. Economic growth again lagged behind expectations, which were adjusted downwards once more. The Pension Fund achieved a positive investment result in 2015 of 4.4% (2014: 13.4%). This investment result is exactly the same as the benchmark for 2015.

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 2015 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 2015

The yields are net of exchange-rate hedging and investment management costs

	Strategic distribution of investments in 2015 in (%)	Yield 2015 in %		
		Pension Fund	Benchmark	Result
Shares	26	7.2	5.4	1.8
Fixed-income investments	57	0.9	0	0.9
Private equity	8	4.9	16.5	-11.6
Hedge funds	4	0.9	0.3	0.6
Real estate	5	12.9	12.5	0.4
Other alternative investments	1	0.4	5.7	-5.3
Other activities	0	4.3	4.2	0.1
<b>Total</b>	<b>100</b>	<b>4.4</b>	<b>4.4</b>	<b>0</b>
Interest-rate hedging fixed	0	0	0	0
Interest-rate hedging variable	0	0	0	0
<b>Total assets/ Yield</b>	<b>100</b>	<b>4.4</b>	<b>4.4</b>	<b>0</b>



## INDEXATION IN 2015

The Board decided to increase the pensions in payment by 0.2% as of July 1, 2015. Price developments over the period from March 2014 to March 2015 were also 0.2%. As a result, the goal of the Pension Fund was realised.

As of July 1, 2015 no catch-up indexation has been granted in addition to the standard indexation. The indexation that was not granted in the past (2012) amounted to 2.2%. If the financial resources allow it, the Board may decide retroactively to (partially) grant any indexations unallocated or only partially granted in the past. Half of the indexation not granted in 2012 (1.1%) was granted in 2014. The financial position of the Pension Fund did not permit catch-up adjustment in 2015 so the indexation that was not granted in 2012, 1.1%, remains. This indexation can be caught up until the end of 2022, if the financial position of the Pension Fund allows it.

No reserves are formed 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 annual

### CONTRIBUTIONS

The Pension Fund strives to achieve its objective with reasonable and stable contributions. The contributions paid by the employer and participants are invested. The amount of contribution paid by the employee is recorded in the Regulations (Regulations VI). 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 38% of salary, up to a maximum pension basis of €92,600. The contribution for participants amounted to 2% of the pension basis up to €92,600. As a result, in 2015 the total pension contribution amounted to 40%. For more information see: [www.shell.nl/pensioenfondsen/funding](http://www.shell.nl/pensioenfondsen/funding)

indexation date for pensions in payment and non-contributory pension entitlements was moved as of 2016 from July 1 to February 1. Consequently, the pensions of retirees and active participants will be adjusted at the same time.

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

## RESPONSIBLE INVESTMENT

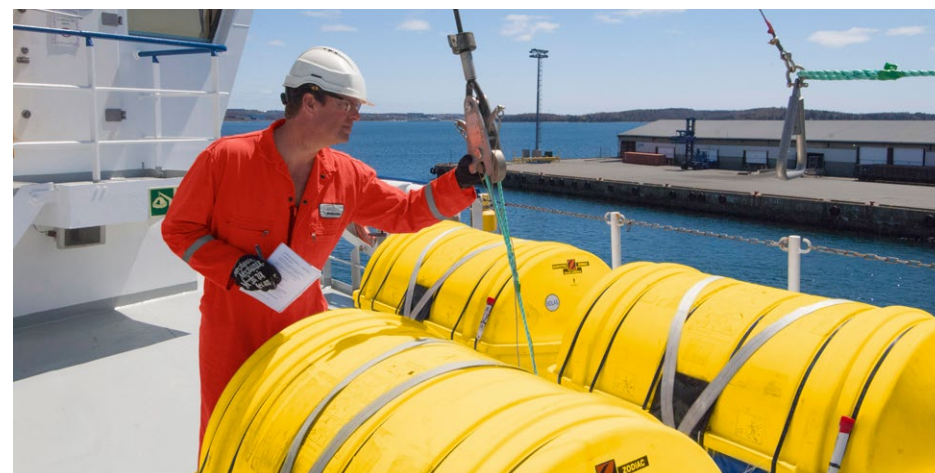
The Pension Fund pursues a responsible investment policy and examines the business operations of the companies it invests in.

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 5,292 shareholders' meetings in 2015. At 2,477 of these meetings, one or more resolutions were opposed. Discussions were held with 600 companies about various subjects, including management structure, relationships with employees and the community, health and safety, child labour, corruption, climate change and environmental subjects.

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



# ADMINISTRATION COSTS

The administration costs of pension funds continued to be a high-profile subject for politicians, supervising authorities, the media and the general public. The Pension Fund Code of Governance, which sets standards for pension fund governance, also contains a passage about administration costs. For instance, the Board must report on the costs of administration of the pension scheme in the Annual Report. In accordance with the recommendations of the Pension Federation of Dutch Pension Funds, the Board provides insight into the administration costs, where data is available.

The administration 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 2015 these costs amounted to €208 per contributing participant and retiree (2014: €223). In comparison with 2014, the costs per contributing active participant/retiree were therefore €15 lower. The most important cause is a reduction in the project costs and lower charged-on costs of the administrative office.

■ **Asset Management costs** - in a nutshell the management costs of investments, including performance-related remuneration, custody fees and accounting and legal advice fees. Transaction costs are not included in the asset management costs. In 2015 these costs amounted to €149 million (2014: €189 million). The main reason for the reduction in the investment management costs is that the performance fees are lower.

The investment management 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 addition, 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 the 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 €27 million for 2015 (€22 million for 2014). The increase in costs is due to the higher purchase and sales values of fixed-income investments.

# COMMUNICATION & ORGANISATION

In 2015 communication was completed concerning the transition to the average salary scheme and the introduction of the net pension scheme, both as of January 1, 2015.



## Communication

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The website was revised and adapted to the statutory requirements in 'Pension 1-2-3', with icons and layered information. The icons are also used where possible in other communication channels (forms, individual letters etc.) for optimal recognisability. To help the participant work with the Pension Calculator, four new videos were developed and made available on the website.

Another new development in 2015 were the workshops aimed at participants 55 years and older. In the context of sustainable employability, and in collaboration with Shell HR, interactive information about the pension schemes was provided at various locations of Shell in the Netherlands. The participation figures and feedback show that participants feel the need for sessions like this about their options. Together with Shell Nederland, thought was given in a number of sessions to the communication strategy and policy, and the adjustments that are required in these areas. The requirements of participants are changing; communication has to be

more digital, interactive, personal and customised. In addition, the relevant information needs to be not only simple, convenient and easily accessible, but also must comply with the statutory requirements, including new provisions. In the year to come this will be developed further into specific plans and a start will be made with implementation.

All this took place in addition to regular, recurrent communications, such as newsletters and the BOP survey. The online participants' survey 'Benchmark Survey Platform' (BOP) was conducted for the fourth time under active participants and retirees at the end of 2015. Topics investigated in the BOP survey include satisfaction with communication and service, trust, image and forms of information used. The scores achieved by the Pension Fund were higher than the national average and slightly higher than in 2014. The Pension Fund will take part in this survey again in 2016.

## Organisation

The Pension Fund administers the pension scheme for Shell in the Netherlands and has subcontracted 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 and, 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 administered, 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. The Board of Supervisors consists of four independent external experts.

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.



## ALM (STUDY)

The ALM study for the period 2015-2017, which started in 2014, was completed in the first half of 2015. By the adjustment of the financial structure of SSPF, consideration was paid to adjustment of the pension scheme as of January 1, 2015 and amendments to the Financial Assessment Framework which took phased effect in 2015. The point of departure for the Board was to find a good balance between the interests of the active participants, retirees and deferred members, and the employer. The most important measures are a reduction in

the contributions from 45% to 40%, and extension of the period for catching up indexation that was not granted, from five to ten years. In spite of the lower contributions, the fiscally facilitated pension accrual has not worsened. For the indexation policy, it continues to apply that all stakeholders are taken into account and that the distribution "over the generations" must be neutral and fair. The investment policy has only been slightly amended and remains focused on growing to a higher funding ratio. All policy amendments have been included in the various legal fund documents.



## STATUTORY CHANGES IN 2015

The Pension Fund pension scheme was amended as of January 1, 2015, as a consequence of new pension legislation. Government has implemented fiscal measures to economise further on pension accrual in the Netherlands. Shell considers it important to provide a good pension scheme and is making optimum use of the opportunities offered under the tax legislation in force from January 1, 2015.

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

- pension is now accrued under the Shell average salary scheme;
- participants accrue gross pension in this average salary scheme up to the permissible tax threshold.

For participants with a pension basis that exceeds the permissible tax threshold, there is the voluntary Shell net pension scheme. The permissible tax threshold can be adjusted every year. In 2015 the threshold was €92,600 and in 2016 the threshold stands at €94,007.



## SHELL NET PENSION SCHEME

Since January 1, 2015 participants with a pension basis that exceeds the permissible tax threshold may only save for the pension from their net income (after deduction of wage tax). This is a measure introduced by the Government. For this reason, since January 1, 2015 Shell has provided a net pension scheme. This net pension scheme is a so-called defined contribution scheme. This is also a legislative obligation. The net pension scheme is administered by Shell Nederland Pensioenfonds Stichting (SNPS).

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 STATEMENT

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Active participants	10466	10956	11327	11182	10879	10933	11517	11690	11655	11226
Pensions in payment	19802	19759	19646	19584	19522	19471	19562	19554	19509	19300
Former participants	5779	6000	6319	6458	6717	6855	6616	6701	6639	7010
<b>Total</b>	<b>36047</b>	<b>36715</b>	<b>37292</b>	<b>37224</b>	<b>37118</b>	<b>37259</b>	<b>37695</b>	<b>37945</b>	<b>37803</b>	<b>37536</b>
Assets (EUR million)	26036	25256	22439	21171	18247	17445	15473	10598	19257	18570
Provision for pension liabilities (EUR million)	21083	20385	17120	17722	16419	14183	12978	13213	10679	11256
Funding ratio (%) <sup>1</sup>	124	124	131	119	111	123	119	80	180	165
Policy funding ratio (%) <sup>2</sup>	123	129								
Total yield (%)	4.4	13.4	7.0	17.0	6.5	14.8	27.5	-43.3	5.9	17.3
Indexation of lifelong pensions (%)	0.2	0.4**	1.5	0	1.9*	0.8	0	2	1.6	1.4

<sup>1</sup> From 2005, the funding ratio was calculated according to the regulations of the Financial Assessment Framework.  
From 2012, the funding ratio was calculated according to the average interest rate in the preceding three months.  
The relevant interest curve used is the so-called 'UFR', as prescribed by DNB.

<sup>2</sup> From 2015, in accordance with the regulations of the new Financial Assessment Framework (nFTK), the so-called 'policy funding ratio' must be used. The policy funding ratio is the average of the funding ratios over the last 12 months. 2014 figure included for comparative purposes.

\* Excluding 1.5% catch-up indexation over 2009, granted in 2011

\*\* Excluding 1.1% catch-up indexation over 2012, granted in 2014



'2015 in brief' brochure gives a summary of the course of events over the previous year and key financial figures of Stichting Shell Pensioenfond (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.