

# Shell Pensioenfond's Newsletter

## Double downturn: investments and interest

The blow that the Pension Fund suffered in 2008, with a very sharp decline in its funding ratio, was about two-thirds attributable to the fall in value of its investments and about one-third to the fall in the rate of interest. Under normal circumstances the interest rate rises when share prices fall, and vice versa. Now they both fell:

- between mid-September and the end of October, share prices plummeted;
- over three months the rate of interest fell about 1%.

Some 70% of the Pension Fund's investments were in equities and alternative investments. These are mainly publicly traded shares, but also include private equity: equity securities in companies that are not publicly traded on a stock exchange. The value of many bonds held by the Pension Fund has also suffered from the credit crunch. The steep price falls are eroding the value of the investments. The fall in interest rates is increasing the Pension Fund's liabilities: a lower interest rate means that more capital is needed now to meet future commitments. For example, a rate decrease of 1 percentage point (e.g. from 5% to 4%) results in a 15% increase of the liabilities.

The **minimum required funding ratio** is 105%, which ensures that the Pension Fund has enough funds to meet present and future pension liabilities.

The **required funding ratio** is the level at which a pension fund has enough funds to meet present and future pension liabilities and still has sufficient reserves to absorb normal market fluctuations. For the Shell Pension Fund this lies between 120% and 130%.

## Fast decline funding ratio, immediate action

The Shell Pension Fund has been hit hard by the credit crunch. The funding ratio – the ratio between the Pension Fund's assets and liabilities – fell from 180% to 85% within a year at the end of November. Kees Linse, Chairman of the Board, explains what has happened and what action is being taken. "In the first half of 2008 there was little cause for alarm. Stock market fluctuations, nothing more than that. But from mid-September onwards, things started happening very quickly."

*Continue on page 2.*

## Expert advice, under high pressure

The Members' Council advises the Board, on request or otherwise. This is always based on strong, balanced arguments. Chairman Lion Goudsmit insists this is done even under the present extreme circumstances. "We are critical and constructive. We must do all we can together to get through these difficult times. We are also opting for this approach in the advice we give. And we stress the importance of good communication with all stakeholders. Especially now."

*Continue on page 3.*

## How the Pension Fund invests

A pension fund has a distant time horizon and has to look many years ahead. Its investment policy reflects this long-term approach. The Pension Fund aims to strike the right balance: on the one hand it takes heed of the financial risks, while on the other hand it has to achieve a financial return. Hedging risks is expensive, and moreover, a very conservative investment policy would not yield enough financial returns. *Continue on page 3.*





## Even better information

*We keep you regularly updated in several ways on Pension Fund news and developments. This is a high priority for us: you're entitled to know how we do business. After all, this affects your income, now or later. If you're a participant you are sent your annual pension statement, and if you're a pension beneficiary the indexation letter. In addition, we produce various brochures and we formally account for the Pension Fund's policy and management in our Annual Reports. Every year we keep you informed on the Pension Fund's course of business in Facts & Figures, the "popular" version of our Annual Report. And of course we have our website ([www.shell.nl/pensioenfonds](http://www.shell.nl/pensioenfonds)) where you can find a wealth of information. Naturally, we trust that you read – and will keep on reading – what you receive from us and will continue to visit the website on a regular basis. However, we think it's a good idea to add another form of communication. That is why we are now issuing this Newsletter to keep you updated on current developments. Inevitably, this edition is entirely dedicated to the impact of the financial crisis on the Pension Fund and what this means for your pension. This crisis has radically changed the world within a few short months – and has had a major impact on the Pension Fund. This Newsletter informs you about the causes, but also about the measures that have been taken to make the Pension Fund financially healthy again. The Newsletter will appear more often in the near future, but not at regular intervals. We shall publish it whenever there is important news that we want to bring to your attention.*

**Margreet de Nie**  
General Manager  
Shell Pensioenbureau Nederland

*Continuation of "Fast decline funding ratio, immediate action" from page 1*

Kees Linse looks back on a bizarre period: "From mid-September onwards the stock markets plummeted, while the interest rate went down as well. This double impact has hit us hard. In early October our funding ratio dropped below the Pension Fund's required level and barely a week afterwards we dropped past the 105% limit."

### Immediate action

The Pension Fund's Board and Management immediately did what had to and could be done. Kees Linse continues: "We did, of course, immediately report to De Nederlandsche Bank when our funding ratio dropped below the limit. Then we immediately started working on two recovery plans, firstly to get the funding ratio back to 105% and secondly to at least restore it to the required level. We submitted the first recovery plan to De Nederlandsche Bank on December 19, 2008, and we shall submit the second plan before April 1."

The Board is being assisted by a dedicated workgroup which draws up the recovery plans. This comprises an investment strategist, an actuary, the SPN General Manager and a lawyer specialising in pensions.

### Additional funding

Kees Linse points out that Shell and the Pension Fund have concluded an Administration Agreement. "Agreements had already been made with Shell in the past on how to support the Pension Fund in the event of a funding shortfall: if the funding ratio repeatedly falls below 105% over a six-month period, Shell will supply additional funding until a funding ratio of 105%. This is now being discussed with the employer. That is also the core of our short-term recovery plan."

### Consequences

The Pension Fund has also taken decisions on the level of contributions. The employer's contribution was increased on January 1, 2009 from 5% to 23.6% and the employee's contribution, on that part of salary that exceeds € 74,881, from 2% to 8%, which is the level laid down in the Regulations. Kees Linse explains: "For participants, there is no change in their pension accrual, but the temporary lower rate of contribution on the salary bracket above € 74,881 has been discontinued. Pension beneficiaries will receive their normal pension. However, it is an important point that we still have to take a decision on indexation."



Kees Linse

*Continuation of “Expert advice, under high pressure” from page 1*

“The representatives on the Members’ Council have to satisfy two key criteria, alongside the official distribution of four participants and eight retirees. The first is a balanced distribution: it’s important that our members come from various parts of the company. And equally important, if not more so, is expertise in pension matters, which are highly complex. We really need this in order to arrive at well-founded advice. Over the past years the Members’ Council has been constantly



Lion Goudsmit

improving its expertise, and the quality of its advice has steadily improved accordingly. This is something we cherish.”

Lion Goudsmit stresses the importance of communication to all stakeholders, especially in these times. “Since the autumn we’ve received many letters: people have questions to ask. That’s why we’ve urged that the pension information be made more effective and accessible.

We therefore greatly welcomed the personal letter last December, and the same applies to this Newsletter, of course. Pension information is difficult and complex, and so it’s a great temptation to put what’s available on one side. But I would recommend everyone to take the time to read this.” At present one issue in particular is a top priority for the Members’ Council: advising on the long-term recovery plan. “We recently had a workshop on the long-term recovery plan and thoroughly reviewed all aspects of the situation. This has to be dealt with very quickly, also by the Members’ Council. We’ll have to be very alert if we are to issue balanced and well-founded advice at such short notice.”

*Continuation of “How the Pension Fund invests” from page 1*

Every three years the Board redefines the Pension Fund’s investment policy. This is based on a thorough study of developments within the Pension Fund itself and of trends on financial markets. Such a study had just been completed in 2007. Normally, stock market fluctuations do not warrant adjustment of the investment policy, which is geared towards the long term. But these are exceptional circumstances and so, without losing sight of the long term, the Pension Fund has taken a series of measures:

- the investment policy has been temporarily adjusted; the allocation to listed equities has been reduced in favour of other investments, notably government bonds;
- a study has been launched to determine whether the investment policy will have to be adjusted more permanently;
- risk reducing measures have been taken, such as the redemption of loans.

## CAUSES RAPID DECLINE FUNDING RATIO

The enormous and rapid decline of the funding ratio has a number of reasons:

- For many years, the Pension Fund has been placing 70% of its investments in equities and alternative investments, particularly shares. This is a high proportion, compared with other pension funds. The Pension Fund also makes relatively high investments in emerging markets. Over the past years this combination has yielded higher returns than average. But now these investments have suffered the hardest fall in value.
- When share prices fall, bond prices usually rise, but that is not happening now. Consequently the Pension Fund’s bond investments have also suffered a severe loss of value, with the exception of investments in government bonds.
- The fall in the interest rate has caused an increase of the Pension Fund’s liabilities.

## Who does what?

- **The Board**, consisting of four employer representatives and four employee representatives, determines policy.
- **Shell Pensioenbureau Nederland B.V. (SPN)** manages the Pension Fund. SPN sees to day-to-day management, administers the pension scheme and advises the Board on pension policy. The Board retains ultimate accountability.
- **Shell Asset Management Company B.V. (SAMCo)** manages the Pension Fund’s assets and advises the Board on investment policy.
- **The Members’ Council** advises the Board, on request and otherwise. It consists of four participants and eight pension beneficiaries.
- Each year in arrears, the Board gives an account of its actions to the **Accountability Council**, consisting of two employer representatives, two employee representatives and two pension beneficiaries.
- **De Nederlandsche Bank** and the **Autoriteit Financiële Markten** are the external supervisors of pension funds.

# Questions & Answers

## 1 *Is my accrued pension in danger?*

No. As a result of the actions taken by the Board, including the call for additional funding from the employer, there are no grounds for any concern about accrued pension entitlements.

## 2 *Is the payment of my monthly pension in danger?*

No. Your pension will be paid as normal. There are sufficient funds to cover pensions in payment. A decision on indexation has yet to be taken.

## 3 *What is a funding ratio?*

The funding ratio is the ratio between the current market value of the Pension Fund's investments and the present value of its pension liabilities, expressed as a percentage.

## 4 *What is the Board doing to regain a higher funding ratio?*

Firstly, the Board has prepared a short-term recovery plan to restore the funding ratio to above 105% within three years. This plan was submitted to De Nederlandsche Bank on December 19, 2008. The second recovery plan for bringing the Pension Fund above the required funding ratio within 15 years will be submitted to De Nederlandsche Bank by April 1.

## 5 *What measures have been taken?*

The employer's contribution was raised from 5% to 23.6% on January 1, 2009.

The employee's contribution on the salary bracket above € 74,881 was raised from 2% to 8% as of that same date. This is the level of contribution laid down in the current Regulations.

## 6 *Will Shell be financially supporting the Pension Fund?*

Shell will meet its commitments as laid down in the Administration Agreement with the Pension Fund. Agreements had already been made with Shell in the past on how the Pension Fund is to be supported in the event of a funding shortfall: if the funding ratio repeatedly falls below 105% over a six-month period, additional funding will be provided by the employer until a funding ratio of 105%. This is now being discussed with the employer.

### **Disclaimer**

*The companies in which Royal Dutch Shell plc directly or indirectly owns investments are separate entities with an own identity. In this newsletter the expression "Shell" is used where reference is made to Group companies and joint ventures that have joined the Pension Fund.*

*No rights can be derived from this newsletter. The Regulations contain the official text of the pension scheme.*

## Recovery plans to De Nederlandsche Bank

On December 19, 2008 the Shell Pension Fund submitted to De Nederlandsche Bank a short-term recovery plan for restoring the funding ratio above 105% within three years. The long-term recovery plan for bringing the funding ratio back above the higher required level will be submitted by April 1. The Pension Fund's recovery plans must include certain elements, the most important of which are:

- required total contribution
- any required adjustment of investment policy
- any measures involving additional funding by the employer
- well substantiated assumptions and presumptions concerning future developments of the Pension Fund's assets and liabilities

De Nederlandsche Bank assesses whether the plans are realistic and achievable, and the Pension Fund reports regularly to De Nederlandsche Bank on progress.

## Market value and market interest

The Pensions Act stipulates how the Pension Fund's assets and liabilities are to be valued. Assets are taken at market value: the listed price in the case of shares. For liabilities, the market rate of interest is taken. A simple example: if you have to pay 100 euros in a year's time and the interest rate is 5%, you will have to deposit just over 95 euros in a savings account now in order to meet that commitment. If the interest rate is 3%, you'll need in excess of 97 euros now in order to pay those 100 euros. So if the interest rate falls, you need more capital now.

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