

**PENSION FUND - MEMBERS OF THE EUROPEAN PARLIAMENT - ASBL**  
**ANNUAL REPORT OF THE BOARD OF DIRECTORS -**  
**FOR THE YEAR ENDED 31st DECEMBER 2016**

## 1. INTRODUCTION

The 5.9% return on the Fund's investments in 2016 covered around €7 million of the cost of the €17 million paid out in pensions during the year.

Consequently at the end of last year the amount of assets in the Fund fell as a result of increased pension payments as more people retired and the pension rates of all EU pensioners were increased. This saw the value of the Fund's assets decrease to €146 million - €10 million below the €156 million recorded at the end of 2015.

After five years of good returns, it is worth pointing out that this year's mixed fortunes have been achieved largely because of market conditions. If the markets have a bad as opposed to a mixed year, which inevitably they will at some point, then this will be reflected in the Fund's returns and accounts.

The Board's investment strategy has always been prudent. The Fund has not adopted unbalanced investment strategies, or exposed the Fund to any excessive risk of fluctuations in exchange rates. None of the Fund's investments are, or ever have been, in hedge funds, commodities or other highly speculative investments.

At the end of June 2017 around 50% of the Fund was invested in Equities, 49% in Bonds and 1% in Real Estate. In line with our long held policy no more than 35% of the Fund's total investments can be invested outside of Europe.

## 2. MEMBERS STATUTE AND THE COURT CASES

At its meeting on 1st April 2009 the Bureau of Parliament expressly accepted its liability to underwrite the scheme in particular the Bureau agreed that:

*"The EP has a legal responsibility to guarantee the right of members of the Scheme to an additional pension which could be retained after exhaustion of the Scheme's funds. Equally, any capital remaining in the Scheme after all pension entitlements have been honoured is to be transferred to the European Parliament".*

This was most recently repeated in a letter from the President of Parliament, Martin Shultz, to [REDACTED] [REDACTED] dated 14th April 2016 which stated *"there in an unambiguous position that Parliament accepts its legal obligations vis-a-vis the members of the Pension Fund"*

The Bureau in April 2009 was however concerned about the liabilities of the scheme as the Members Statute specifically stated that;

*"The voluntary pension fund set up by the European parliament shall be maintained after the entry into force of this Statute for Members or former Members who have already acquired rights or future entitlements in that fund"* and that *"Acquired rights and future entitlements shall be maintained in full"*

Consequently the Bureau made some changes to the rules of scheme which adversely affected a number of members of the scheme. Whilst the Board had sympathy with the aims of the Bureau they did not feel that the matter should have been decided without consulting the Board. These decisions gave rise to a number of court cases at the European Court of Justice by some individual members of the scheme which concluded in 2014 with a judgement that upheld all of Parliament's changes.

Clearly at some point an orderly transfer of the Fund will be needed to the Parliament. The Directors of the Fund continue to express their willingness to commence discussions on this matter as soon as the Parliament wishes.

### 3. THE BOARD

The current Board of Directors of the ASBL ("the Board") was elected at the Annual General Meeting of the associate members held in Brussels on 30th November 2016. A full list of the current directors is given in an Annex at the end of this report.

### 4. DIRECTORS REMUNERATION 2016

In the interests of transparency and as requested by the Budget Control Committee Chairman the directors remuneration is as follows:

No director other than [REDACTED] (see below), who is appointed as specialist director in line with the Fund's Statutes, received any fee for their role.

Directors who are serving MEPs draw the appropriate allowances from the Parliament.

All expenses incurred by [REDACTED] were met by the European Investment Bank for which the Directors thank the EIB.

[REDACTED] Deloitte Consulting receives an annual payment of €17,500 for his services which includes up to 90 hours devoted to pension fund business and a fee of €1,500 for each meeting he attends plus reimbursement of actually incurred travel and accommodation costs.

All other directors including the Chairman and Vice-Chairman receive a daily allowance when on Board business plus travel reimbursements on the same basis as MEPs. This includes the payment of distance and duration allowances on the same basis as MEPs.

During 2016 total meeting expense for the entire Board, excluding that paid to Deloitte Consulting, amounted to €65,614, the majority of which was incurred by the Chairman (€12,057 as reimbursement for actually incurred travel expenses and €25,227 as allowances at the same rate as paid to MEP's).

Members are asked to endorse the arrangements for payments to Directors in the vote on the 2016 Annual Report, Accounts and Director's Remuneration.

### 5. STATUTES OF THE ASBL

The Statutes of the ASBL are governed by Luxembourg Law and set out the rules and regulations under which the ASBL operates. Copies of the Statutes are available on request to the Fund's Company Secretary.

## 6. THE RULES OF THE SCHEME

The rules of the scheme formed part of Annex VII to the Parliament's "Rules on Members' Expenses and Allowances" as they existed before the entry into force of the Members Statute and now pursuant to Article 72 of the Implementing Measures of the Statute, Annex VII shall continue to be applied to pensioners and people entitled to a pension.

It is the Bureau of Parliament that determines the entitlements to, and the levels of benefits. Pension liabilities are the responsibility of the Parliament. The Board of Directors is responsible for the assets and administration of the Fund and undertakes certain administrative functions on behalf of the Parliament.

## 7. MANAGEMENT OF THE FUND

Much of the work of the Board involves overseeing the effective management of the Fund for which the Board engages the services of a number of companies.

In March 1994 a "*Societe d'Investissement Capital Variable - SICA V*" was formed to deal with the investments of the Fund. The ASBL owns all the shares of this SICAV and the SICAV investment manager, is responsible for the day to day management of the investment of the Fund within the overall strategy set by the Board.

Copies of annual, and half-yearly, reports and accounts of the SICAV may be inspected by any member on application to the Fund's Company Secretary.

A list of the Fund's Managers and Advisors is detailed in the Annex to this report.

Since 2004 the Board's aim has been to maintain total administrative costs below 0.25% of assets. In 2016 the total administrative costs were €285,088 and 0.19% of assets. The equivalent figures for 2015 were €284,528 and 0.18% of assets.

## 8. FINANCIAL ADMINISTRATION

The payment of monthly pensions is undertaken by the European Parliament (DG Finance - Members Social Entitlements Unit) in Brussels. The Board would again this year like to thank the Parliament's pension staff for the efficient way they have played their part in the administration of the scheme.

## 9. GENERAL ADMINISTRATION

The Fund's general administration is prepared in Brussels by [REDACTED] the Fund's administrator and Company Secretary. The Board would like to thank [REDACTED] for his work for the Fund.

## 10. ANNUAL CONTRIBUTIONS AND BENEFITS

The level benefits of the scheme are determined by the Bureau of Parliament and are based on a proportion of the "base" salary of a Judge of the Court of Justice of the European Communities.

Consequently benefits automatically increase in line with any increases in salaries within the Community Institutions.

These increases are usually agreed sometime after the implementation date (July each year) and normally result in beneficiaries receiving backdated pension payments.

For information under the revised "Method" in force since January 2015 EU Staff Regulations provide for an annual update of remuneration and pensions.

The annual update is now based on calculations of the changes in the real remunerations of national officials in eleven Member States - Belgium, Germany, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Poland, Sweden and the United Kingdom (the specific indicator) - and on inflation, calculated using a joint index made up of the Belgium Harmonised Index of Consumer Prices (BHCIP) and the Luxembourg CIP.

The new method includes a moderation clause which envisages that when the method results in increases (or decreases) of the specific indicator of more than 2%, the 2% update of the specific indicator plus inflation will be applied immediately and the amount exceeding 2% will be paid nine months later.

In addition, there is a new crisis clause which will apply where there has been negative growth in the GDP of the EU. Different decreases of GDP can either result in split and delayed payments or no increase at all. There is a correction clause in case the GDP figures used to trigger the crisis clause prove incorrect.

A recovery clause can be applied once the economic crisis is over so as to ensure that parallelism is maintained.

The new Method will apply with complete automaticity, which means that the legislator i.e. the Council of the European Union will no longer be able to refuse to affect an update. The Commission will publish the updates in the Official Journal.

The method will be subject to review on 31 December 2023 and will therefore not be linked to the next Multiannual Financial Framework.

The 2016 salary increase for staff within the community institutions was 3.3%. This was applied to pension payments in December 2016 and back-dated to July 2016.

## 11. INVESTMENT POLICY REVIEW AND IMPLEMENTATION

The Board's investment aim is to secure the best possible returns on the assets within a framework of security and stability.

A full review of the Fund's investment strategy began with the receipt of a letter from President Poettering on 4th May 2009 in which he highlighted one part of the Bureau of Parliament's decisions of 1st April 2009 (see details above) and invited the Fund *"to adopt a more prudent and balanced investment strategy and to avoid exposing the Fund to risk offluctuations in exchange rates"* and invited the Board to *"guarantee an immediate sustainable change in the investment policy of the Scheme towards low risks assets"*.

Despite the fact that the Parliament failed to respond to the Fund's requests for them to define what is meant by the term *"a more prudent and balanced investment strategy"*, or to co-operate with the Fund in a joint review of the investment strategy, the Board of Directors appointed its own investment consultant in early 2010.

The result of this review and the investment consultants recommendations to implement *"a more prudent and balanced investment strategy"* were discussed at the Board meetings of 13th October and 4th December 2010 when it was agreed to accept the main recommendations namely that *"the equity allocation is reduced to 50% initially"* and that *"a mix of corporate and government bonds"* would be used *"to de-risk out of equities"*.

Prudence of course has its price and the opportunity cost of this strategy is currently estimated to be €19.4 million (this calculation is based on retaining the investment strategy used prior to August 2011 and assumes investment in the relevant indices and index level performance).

The Fund has since August 2011 invested in three index funds with Candriam who implement Environmental, Social and Governance (ESG) Policies on all their index funds as follows:

*Statement of engagement:*

*"Socially Responsible Investment holds a key place in the strategic position and philosophy of Candriam. Having been active in the SRI field since 1996, we have followed the European Transparency Code since 2009. It can also be viewed on our corporate website <https://www.candriam.com> and on our dedicated SRI website <http://sri.candriam.com>.*

*What are the objectives of including ESG criteria for these funds?*

*Through its SRI engagement, Candriam considers that a company's long-term value is not solely influenced by financial criteria such as income, growth in the operating margin, etc... By incorporating environmental, social and governance (ESG) criteria, we identify other factors liable to influence a company's value and competitiveness over the medium and long term, which are not always immediately obvious in traditional financial analyses.*

*The investment philosophy of Candriam's SRI Index funds is based on the idea that the ratification of the main international conventions must be factored into the index fund management process. By applying the risk-optimised sampling methodology, which is particularly appropriate for applying a norms-based filter to the investment universe without influencing the objective while minimising tracking error, investors can count on financial performances with the knowledge that the main international treaties are observed."*

The reports from the Fund's investment managers, Candriam Investors Group, Aberdeen Property and the Fund's investment performance specialists, Portfolio Evaluation Ltd, will be presented to the Annual Meeting.

## 12. ANNUAL ACCOUNTS

The enclosed audited annual accounts form an integral part of this report. The Fund's accountants, the IF Group, will formally present these accounts to the Annual Meeting and KPMG will formally present their auditors report.

### 13. CHANGES TO ACCOUNTING POLICY:

As detailed in the annual accounts for 2010 at its meeting on 28th April 2010 the Board of Directors of the Fund noted the following:

- that the Members' Statute had come into force on 13th July 2009 and that the Statute stated in Articles 27 (1) and (2) that:

*"The voluntary pension fund set up by the European parliament shall be maintained after the entry into force of this Statute for Members or former Members who have already acquired rights or future entitlements in that fund"* and that *"Acquired rights and future entitlements shall be maintained in full."*

- that at its meeting of 1st April 2009 the Bureau of the European Parliament had agreed that:

*"The EP has a legal responsibility to guarantee the right of members of the Scheme to an additional pension which could be retained after exhaustion of the Scheme's funds. Equally, any capital remaining in the Scheme after all pension entitlements have been honoured is to be transferred to the European Parliament"*

Having received advice that there were no legal or accounting rules and regulations in Luxembourg that required the Fund to report in its annual accounts the Parliament's future liabilities, and any actuarial deficit between those liabilities and the Fund's assets, the Board of Directors, with the approval at the AGM of the Fund of 2nd December 2010, decided not to include these details in the Fund's future accounts.

### 14. FINANCIAL DEVELOPMENT OF THE FUND

As at 31 December 2016, the accumulated fund, as detailed in the annual accounts, amounted to €146,396,823 a decrease of €9,148,393 from 31 December 2015.

During 2016 the sum of €16,797,007 was paid out in pensions of which just over €7 million was covered by investment returns so part, but not all, of the pension payments in 2016 were covered by a growth in assets.

All the investment assets of the Fund are held in the SICAV, which at the end of 2016 held €146,330,151, or 99.9%, of the Fund's total assets. The remaining balance was held in the ASBL, and awaiting transfer to, and investment by, the SICAV.

The Fund's investment managers, Candriam Investors Group, will provide details of the overall distribution of the investments in their report to the Annual Meeting.

### 15. OTHER ISSUES

The Board of Directors have in the past year also dealt with the issues of Pension Certificates, Contribution and Pension Statements and marriage certificates as follows:

(i) Life certificates:

Every two years all members in receipt of a pension from the Fund are required to produce certificates stating that they are alive and therefore still entitled to receive benefits from the scheme. Pension certificates were therefore required for 2016 and will be required again in 2018, 2020, etc.

Regrettably, in spite of a number of reminders, some beneficiaries fail to provide the information requested and their benefit payments are suspended - there were 12 such cases in August 2016. To assist members the Fund has now arranged for the European Parliament's Medical Service to issue life certificates to members who visit the service whilst in Brussels.

(ii) Annual Pension and Contribution Statements:

Each year every member in receipt of a pension from the Fund is sent an annual pension payments statement. As the number of pensioners continues to grow so does the number of requests for duplicate statements to replace those lost or mislaid by members. We would therefore urge all pensioners and members to keep in a safe place all their statements.

(iii) Marriage and Civil Partnership Certificates:

If married, or in the case of same sex relationships in a civil partnership, all members of the scheme, either when they join the scheme or when they apply for their pension, are asked to provide details for our records. This helps with the payment of survivors benefits. If in doubt, we would advise all members of the scheme to check whether the Fund has a copy of their marriage or civil partnership certificate.

(iv) Brexit:

The departure of the UK from the EU will in time be reflected in the Fund. The Board wishes to stress to all pensioners that they will continue to safeguard the interests of all nationalities represented in the Fund and the British Brexit will not be allowed to prejudice the wider interests of all our members.

Signed on behalf of the Board



Chairman of the Board



Vice-Chairman of the Board