PepsiCo UK Pension Plan (‘the Plan’)

Annual Implementation Statement for the Year Ended 30 September 2023

1. Introduction

The Trustee has produced a Statement of Investment Principles (“SIP”) in accordance with Section 35 of the Pensions Act 1995, the Occupational Pension Scheme’s (Investment) Regulations 2005 and subsequent legislation. The Trustee has also prepared a Default Arrangement Statement of Investment Principles (“Default SIP”).

This statement sets out how, and the extent to which, the SIP and Default SIP have been followed during the year running from 1 October 2022 to 30 September 2023 (the “Plan Year”). This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the relevant versions of the SIP and Default SIP that were in place for the Plan Year. This was the SIP dated September 2022, the SIP dated September 2023, the Default SIP dated April 2021 and the Default SIP dated September 2023.

Sections 2.1 and 2.2 of this statement set out the investment objectives of the Plan and changes that have been made to the SIP and Default SIP during the Plan Year, respectively. Section 2.3 of this statement sets out how, and the extent to which, the policies in the Defined Benefit (“DB”) Section and Defined Contribution (“DC”) Section of the SIP and Default SIP have been followed. **The Trustee can confirm that all policies in the SIP and Default SIP have been followed in the Plan Year.**

A copy of the SIP and Default SIP are available at https://www.pepsico.co.uk/pension-plan-members.

Sections 3 and 4 include information on the engagement and key voting activities of the underlying investment managers within each Section of the Plan.

2. Statement of Investment Principles

2.1. Investment Objectives of the Plan

DB

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objectives for the DB Section of the Plan specified in the SIP are as follows:

- To achieve an investment return which, together with contributions from the Company (as required), is sufficient to maintain reasonable control over the various funding risks that the Plan faces.
- A secondary objective is to generate a long-term return on the Plan’s assets in excess of the return assumed for calculating the liabilities. In setting the strategy, the Trustee sets prudent risk management guidelines, which provide reasonable protection for the funded status of the Plan and ensure lower volatility in pension expense and reasonable stability in Company contributions (as required).

DC

The Trustee holds certain DC assets on behalf of members of the Plan. These include additional voluntary contributions (“AVCs”) and assets relating to legacy money purchase benefits in the Quaker Pension Scheme and the Huntley & Palmer Money Purchase Pots or Special Transfer Credits.

The Trustee’s objective for DC elements of the Plan (including AVCs) is to assist members to provide adequately for themselves in retirement via appropriate investment of their accumulated savings under the Plan.

2.2. Review of the SIP and Default SIP

During the year to 30 September 2023, the Trustee reviewed the Plan's SIP, taking formal advice from its Investment Consultant (Mercer Limited). The Trustee signed a revised SIP in September 2023. Amongst other things, the revised SIP reflects the investment de-risking agreed and implemented over the course of the Plan Year, as well as the Trustee's agreed stewardship priorities.

The Trustee has also reviewed the Default SIP during the Plan Year, again taking formal advice from its Investment Consultant. The Trustee signed a revised Default SIP in September 2023. The revised Default SIP reflects the Trustee's agreed stewardship themes, as well as the implementation of the move from annual to quarterly switching (amongst other things) within the default strategy. This change is also reflected in the SIP dated September 2023.

2.3. Assessment of how the policies in the SIP and Default SIP have been followed for the Plan Year

The information provided in this section highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP (dated September 2022 and September 2023) and Default SIP (dated April 2021 and September 2023), relating to the DB and DC Sections of the Plan.

As summarised below, it is the Trustee's view that the policies in the SIP and Default SIP have been followed during the Plan Year.

Investment Mandates		Policy	Policy met?
Securing compliance with the legal requirements about choosing investments	DB DC	As required by legislation, the Trustee consults a suitably qualified person when making investment selections by obtaining written advice from its Investment Consultant.	✓
Realisation of investments	DB DC	The Trustee's objective is to ensure that there is sufficient liquidity within the Plan's assets to meet short term cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Plan's overall investment policy.	✓

Environmental, Social and Governance		Policy	Policy met?
Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments	DB DC	The Trustee believes that environmental, social and governance ("ESG") factors may have a material impact on investment risk and return outcomes. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee has given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, in particular in relation to the selection, retention and realisation of underlying investments. Meanwhile, the Trustee considers how ESG considerations (including climate change) are integrated within investment processes when appointing new investment managers and monitoring existing investment managers.	✓

	The Trustee does not require the Plan’s investment managers to take non-financial matters into account in their selection, retention and realisation of investments. Although the Trustee has no formal process for seeking the views of members on ethical considerations or on issues such as social and environmental impact, it will consider views expressed by members provided that they are consistent with the Plan’s investment objectives.	

Voting and Engagement Disclosures	Policy	Policy met?
The exercising of rights attaching to the investments and undertaking engagement activities in respect of the investments (DB, DC)	The Trustee’s policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Plan’s investments to the investment managers. The Trustee considers how stewardship considerations are integrated within investment processes when appointing new investment managers and monitoring existing investment managers.	✓

Monitoring the Investment Managers	Policy	Policy met?
Incentivising asset managers to align their investment strategies and decisions with the Trustee’s policies (DB, DC)	For pooled fund investments, the Trustee accepts that it cannot specify the risk profile and return targets for these strategies. However, appropriate funds are selected to align with the overall investment strategy and the Trustee’s policies. For segregated mandates, the Trustee specifies criteria in the investment manager agreements to meet the Plan’s specific investment requirements. Where appointments are for actively managed mandates, the managers are incentivised through remuneration and performance targets.	✓
Evaluation of asset managers' performance and remuneration for asset management services (DB, DC)	The Trustee reviews the performance of the Plan’s investments on a regular basis. The Trustee’s focus is primarily on long-term performance, but short-term performance is also considered. As a long-term investor, the Trustee is not looking to change the investment arrangements on a frequent basis. However, if a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee will review the appointment to ensure it remains appropriate and consistent with the Trustee’s wider investment objectives. In such instances, the Trustee may ask the manager to review their fees instead of terminating the mandate. Remuneration for asset management services is agreed prior to manager appointment and is reviewed on a regular basis.	✓

Monitoring portfolio turnover costs	DB DC	The Trustee asks investment managers to include portfolio turnover and turnover costs in their presentations and reports where applicable. The Trustee will engage with a manager if portfolio turnover is higher than expected.	✓
The duration of the arrangements with asset managers	DB DC	There is no set duration for manager appointments. However, appointments are regularly reviewed and could be terminated either because the Trustee is dissatisfied with the managers' ongoing ability to deliver the required mandate or because of a change in investment strategy by the Trustee.	✓

Strategic Asset Allocation		Policy	Policy met?
Kinds of investments to be held, the balance between different kinds of investments and expected return on investments	DB	The Trustee's overall investment policy is guided by the objectives outlined in Section 2.1 of this statement. The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the liabilities of the Plan. The Trustee invests in equities and other return-seeking assets because in the long-term they are expected to produce returns higher than a portfolio which is closely matched to the liabilities. The Trustee is willing to accept a degree of risk primarily because of its assessment of the strength of the employer covenant.	✓
	DC	The Trustee's objective is outlined in Section 2.1 of this statement. The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee regards its duty as making available a range of investment funds that will suit members' needs and risk tolerances through their working lives.	✓
Risks, including the ways in which risks are to be measured and managed	DB DC	The Trustee recognises a number of risks involved in the investment of the assets of the DB and DC Sections of the Plan and that the choice and allocation of investments can help to mitigate these risks. Details of these risks and how they are measured and managed can be found under Sections 3.2 and 5.2 of the SIP.	✓

Investment Mandates

Securing compliance with the legal requirements about choosing investments

Policy

As required by legislation, the Trustee consults a suitably qualified person when making investment selections by obtaining written advice from its Investment Consultant.

How has this policy been met over the Plan Year?

DB

Over the course of the Plan Year, the Trustee has reviewed how the Plan gains access to corporate bond markets. As funding has improved, investment risk has been managed down and the reliance on the Company covenant has reduced, the focus has started to shift from managing funding level volatility to managing the liquidity risk attached to paying members' benefits. As such, the importance of being able to generate predictable income in a risk efficient manner has increased. The conclusion the Trustee reached was that adopting a buy and maintain philosophy provided a more risk efficient means of accessing credit markets compared to the current active approach. Consequently, the Trustee agreed to pause the investment and legal due diligence underway in respect of the previously proposed allocation to an actively managed US corporate bond mandate with Wellington.

Based on advice provided by the Investment Consultant, the Trustee has agreed to evolve the existing M&G UK corporate bond mandate towards a buy and maintain approach and appoint BlackRock to manage a complementary global buy and maintain credit portfolio. The Trustee has received advice from its Investment Consultant regarding the suitability of the respective investments for the Plan. The Trustee expects the evolution of the M&G mandate and funding of the BlackRock portfolio to proceed during 2024.

DC

While the Trustee made some changes to the switching mechanism employed within the default strategy over the Plan Year, no changes were made to the DC Section's investments. The Trustee has historically received advice in line with the Pensions Act 1995 (as amended) when making investment selections.

Investment Mandates

Realisation of Investments

Policy

The Trustee's objective is to ensure that there is sufficient liquidity within the Plan's assets to meet short term cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Plan's overall investment policy.

How has this policy been met over the Plan Year?

DB

Subject to maintaining the Strategic Asset Allocation ("SAA"), the Trustee has continued to use income derived from the DB Section's assets to meet cashflow requirements where possible, thereby reducing the need for physical disinvestments. The impending evolution of the M&G UK corporate bond mandate towards a buy and maintain approach and funding of the BlackRock global buy and maintain credit portfolio is expected to improve the income generative potential of the Plan's assets. The expected increase in the Plan's allocation to corporate bonds as the investment strategy continues to be de-risked over time will help to deliver the income necessary to meet the higher level of benefit payments required as the Plan matures.

The DB Section holds a diversified portfolio consisting mostly of readily realisable securities. As such, the risk of not being able to sell assets (if required) in order to pay benefits is small. In particular, most of the DB Section's assets are daily priced and traded, except for the Genesis Emerging Markets Equity mandate, which trades twice weekly, and the property funds managed by Aviva and Lothbury, which are illiquid and have significant notice periods for disinvestments. The Trustee carefully considered the illiquidity of these holdings in the context of the DB Section's cashflow position before deciding to invest (and scaled the allocations to the funds accordingly). Prior to the end of the Plan Year, the Trustee submitted a request to redeem the Plan's entire holing in the UK property mandate managed by Lothbury, following significant changes at the senior management level at the firm.

The Trustee, taking advice from the Investment Consultant, has reviewed (and will continue to review) the cashflow policy for the DB Section regularly, to ensure sufficient liquidity is available to meet expected cashflows.

DC

All funds within the DC Section are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets. As such, assets should be realisable at short notice, based on member demand.

Environmental, Social and Governance ("ESG")

Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments

Policy

The Trustee believes that ESG factors may have a material impact on investment risk and return outcomes. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, in particular in relation to the selection, retention and realisation of underlying investments. Meanwhile, the Trustee considers how ESG considerations (including climate change) are integrated within investment processes when appointing new investment managers and monitoring existing investment managers.

The Trustee does not require the Plan's investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

Although the Trustee has no formal process for seeking the views of members on ethical considerations or on issues such as social and environmental impact, it will consider views expressed by members provided that they are consistent with the Plan's investment objectives.

How has this policy been met over the Plan Year?

DB DC

Over the course of the Plan Year, the Trustee has reviewed the structure of the DB Section's equity portfolio. As part of this review, the Trustee has agreed a long term equity portfolio structure consisting of an 89% allocation to BlackRock's ACS World ESG Equity Tracker Fund and an 11% allocation to BlackRock's iShares Emerging Markets Equity ESG Index Fund (subject to advice from the Investment Consultant regarding the suitability of the iShares Emerging Markets Equity ESG Index Fund for the Plan). These funds aim to maximise exposure to positive ESG factors and minimise carbon exposure, whilst targeting risk and return characteristics similar to those of the broader equity markets in which they invest. The Trustee has applied (and will continue to apply) disinvestments from the equity portfolio, required for cashflow and/or de-risking purposes, in order to tighten the equity portfolio allocation to the long-term target, thereby increasing the ESG tilt at the total equity portfolio level over time.

Consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD") and the statutory requirements prescribed by the Department of Work and Pensions ("DWP")[1], the Trustee has set targets to reduce the carbon footprint (scope 1 and 2 emissions) of the DB Section's listed equity and corporate bond portfolios by 40% by 31 December 2030 and 20% by 31 December 2025 respectively, relative to a 31 December 2020 baseline. The respective targets are based on how the portfolios are expected to evolve over time, taking into account the future de-risking agreed between the Trustee and Company, as well as the investment managers' views regarding the potential future decarbonisation of the portfolios. The Trustee considers these targets when making investment decisions and will review progress against them on an annual basis.

The Trustee has agreed not to set any decarbonisation targets in respect of the DC Section of the Plan, due to the limited scope for the Trustee to effect change via the existing arrangement with BlackRock, noting that the DC section also represents a small (in relative terms) and reducing part of the overall Plan (given that the Plan is closed). The Trustee is currently considering alternative means of implementing the DC arrangements, in order to improve the extent of ESG integration (amongst other things) within the options made available to members.

[1] The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021.

In order to monitor the extent to which ESG factors are integrated into the appointed investment managers' decision-making, the Trustee has continued to review the ESG ratings the Investment Consultant assigns to the strategies in which the Plan invests as part of regular performance reporting for the DB and DC Sections. In addition, the Trustee has asked the managers to comment on these areas when they have presented at meetings. Furthermore, the Trustee has received an annual ESG monitoring report, which uses the Investment Consultant's ESG ratings to assess the managers' ESG credentials relative to other managers of similar strategies. The report also includes a review of the Plan's exposure to controversies and the Investment Consultant's independent assessment of the extent to which ESG factors are integrated into the Trustee's broader governance of the Plan's arrangements, relative to other similar schemes. Due to the action taken by the Trustee since the initial independent assessment was carried out in Q1 2023, the Trustee improved the Plan's rating from "B" to "A", on an "A++" to "C" scale, which was above the average rating for pension schemes of a similar size and sector. Off the back of the report, the Trustee has also identified a number of additional actions to further improve the extent of ESG integration within overall decision making.

Over the course of the Plan Year, the Trustee has established processes to satisfy themselves that those who advise or assist the Trustee with respect to governance activities, otherwise than as a legal adviser, are taking adequate steps to identify, assess and, where relevant, manage climate-related risks and opportunities. This includes the Trustee's investment, actuarial and covenant advisors and is consistent with the recommendations of the TCFD and the statutory requirements prescribed by the Department of Work and Pensions.

The Trustee maintains a separate ESG Policy, which sets out the Trustee's ESG beliefs and how ESG risks and opportunities are managed as part of the overall risk management of the Plan. A copy of the ESG Policy is available at https://www.pepsico.co.uk/pension-plan-members.

Voting and Engagement Disclosures

The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee would monitor and engage with relevant persons about relevant matters)

Policy

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Plan's investments to the investment managers. The Trustee considers how stewardship considerations are integrated within investment processes when appointing new investment managers and monitoring existing investment managers.

How has this policy been met over the Plan Year?

DB DC

The Trustee has asked managers to comment on these areas when they have presented at meetings.

In addition, voting and engagement summary reports from the Plan's investment managers were provided to the Trustee for review to ensure that they were aligned with the Trustee's policy during the Plan Year. Outside of those exercised by the investment managers on behalf of the Trustee, no other engagement activities were undertaken and the Trustee does not use the direct services of a proxy voter.

Section 3 includes examples of engagement activity undertaken by the Plan's investment managers, while Section 4 sets out a summary of voting activity undertaken by the Plan's equity managers, as well as a sample of the most significant votes cast on behalf of the Trustee.

The Trustee supports the aims of the UK Stewardship Code and the Plan' investment managers are encouraged to report their adherence to the Code. All of the Plan's investment managers within the DB and DC Sections are signatories to the current UK Stewardship Code, with the exception of Lothbury, who are currently working towards signatory status.

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022, updated guidance was produced which became effective for all scheme year ends on or after 1 October 2022. The updated guidance requires trustees to include a description of what constitutes a significant vote within Implementation Statements (amongst other things). The Trustee's definition is based on the following key stewardship themes/priorities that were agreed over the course of the Plan Year:

- Environment – climate change and biodiversity.
- Social – modern slavery.
- Governance – Board diversity.

The Trustee determined these priorities based on the Trustee Directors' ESG beliefs, taking into account the Company's strategic priorities on ESG and sustainability matters. The investment managers are aware of the Trustee's policies on stewardship and engagement.

Monitoring the Investment Managers

Incentivising asset managers to align their investment strategies and decisions with the Trustee's policies

Policy

For pooled fund investments, the Trustee accepts that it cannot specify the risk profile and return targets for these strategies. However, appropriate funds are selected to align with the overall investment strategy and the Trustee's policies.

For segregated mandates, the Trustee specifies criteria in the investment manager agreements to meet the Plan's specific investment requirements.

Where appointments are for actively managed mandates, the managers are incentivised through remuneration and performance targets.

How has this policy been met over the Plan Year?

DB DC

The Trustee reviews the appropriateness of the funds in which the Plan invests on an ongoing basis, to ensure that they are aligned with the Trustee's policies and the investment strategy being targeted. To facilitate this process, over the course of the Plan Year, the Trustee has sought its Investment Consultant's views in relation to the managers' ability to deliver upon the Trustee's requirements for each of the Plan's mandates on a forward looking basis. In addition, the Investment Consultant's manager research ratings, including ESG ratings, have assisted the Trustee with ongoing due diligence and have been used in decisions around the selection, retention and realisation of manager appointments.

During the Plan Year, the Trustee agreed to terminate the DB mandates managed by Genesis (emerging markets equity) and Lothbury (UK property), following a number of senior departures at both firms (amongst other things). These developments resulted in downgrades to the ratings assigned to the respective strategies by the Investment Consultant, reflecting a reduction in the Investment Consultant's conviction in their prospects for outperformance going forwards. The Trustee is currently considering the possible timing of the payment of Lothbury redemption proceeds (amongst other things), in particular given the impact this will have on future de-risking. Meanwhile, the Trustee expects the termination of the Genesis mandate to proceed during 2024.

The majority of the proceeds from the disinvestment of assets currently managed by Genesis are expected to be invested in BlackRock's iShares Emerging Markets Equity ESG Index Fund (subject to advice from the Investment Consultant regarding the suitability of the Fund for the Plan). The Trustee selected this Fund based on the Investment Consultant's positive view of BlackRock's passive equity management capabilities, as well as the Fund's enhanced ESG credentials versus the other two passive emerging market equity strategies offered by BlackRock, who are the Plan's incumbent passive equity manager. The decision to switch to passive management within emerging market equities was driven by the Trustee's view that the potential benefits of maintaining an active approach no longer justified the governance require to monitor what had become a relatively small element of the Plan's overall investment strategy

The same reasoning drove the Trustee's decision to terminate the Schroders Asia Pacific (ex-Japan) equity mandate over the Plan Year, as part of the implementation of agreed de-risking.

The Trustee's decision to evolve the existing M&G mandate to a buy and maintain approach was based on the Investment Consultant's positive view on M&G's approach to credit portfolio management and experience in managing annuity products, which gave M&G a strong pedigree within the UK buy and maintain credit space. The Investment Consultant's positive view on BlackRock global buy and maintain credit capabilities was also one of the key drivers behind BlackRock's selection as the Trustee's preferred manager for the complementary buy and maintain mandate. However, the Trustee also acknowledged the governance benefits associated with appointing one of the Plan's existing managers to this role, from both an implementation and ongoing oversight perspective. The reduction in the complexity of future de-risking transfers was also recognised, given the expectation that it would be possible to implement the majority of the required asset movements with a single manager.

The Trustee continues to make the investment managers aware that their ongoing appointment is based on their success in delivering the mandate that they have been appointed to manage.

Monitoring the Investment Managers

Evaluation of asset managers' performance and remuneration for asset management services

Policy

The Trustee reviews the performance of the Plan's investments on a regular basis. The Trustee's focus is primarily on long-term performance, but short-term performance is also considered.

As a long-term investor, the Trustee is not looking to change the investment arrangements on a frequent basis. However, if a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee will review the appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives. In such instances, the Trustee may ask the manager to review their fees instead of terminating the mandate.

Remuneration for asset management services is agreed prior to manager appointment and is reviewed on a regular basis.

How has this policy been met over the Plan Year?

DB DC

Over the Plan Year, the Trustee has received quarterly investment performance reports for the DB Section and an annual performance report in respect of the DC Section. These reports showed performance (versus relevant benchmarks and targets) over both shorter and longer-term periods.

In February 2023, the Trustee carried out a fee benchmarking exercise for the Plan's DB assets. The exercise summarised the fee arrangements for the Plan and benchmarked them against the fees offered for broadly equivalent products, based on data drawn from Mercer's Global Investment Manager Database. Overall, the fees paid in respect of the DB Section generally offered good value on a peer group comparison basis.

Performance and remuneration was also considered as part of the annual Value for Members ("VfM") assessment carried out in respect of the DC Section.

Monitoring portfolio turnover costs

Policy

The Trustee asks investment managers to include portfolio turnover and turnover costs in their presentations and reports where applicable. The Trustee will engage with a manager if portfolio turnover is higher than expected.

How has this policy been met over the Plan Year?

DB

The Trustee has not explicitly monitored portfolio turnover costs with respect to the DB Section of the Plan over the Plan Year. Investment manager performance was reported and evaluated net of all fees and transaction costs (costs incurred as a result of buying and/or selling assets). In addition, where possible, performance objectives for investment managers have been set on a net basis. In this way, managers were incentivised to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee acknowledges that at an individual mandate level, portfolio turnover costs will form part of the Investment Consultant's manager research assessment.

DC

With regard to the DC Section, the Trustee considered portfolio turnover costs as part of the annual VfM assessment.

Monitoring the Investment Managers

The duration of the arrangements with asset managers

Policy

There is no set duration for manager appointments. However, appointments are regularly reviewed and could be terminated either because the Trustee is dissatisfied with the managers' ongoing ability to deliver the required mandate or because of a change in investment strategy by the Trustee.

How has this policy been met over the Plan Year?

DB DC

With the exception of the changes outlined earlier in this statement, the Trustee has not agreed to make any further amendments to the appointed investment managers during the Plan Year. The Trustee remains comfortable with the remaining investment managers appointed by the Plan.

Strategic Asset Allocation ("SAA")

Kinds of investments to be held, the balance between different kinds of investments and expected return on investments

DB

Policy

The Trustee's overall investment policy is guided by the objectives outlined in Section 2.1 of this statement.

The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the liabilities of the Plan. The Trustee invests in equities and other return-seeking assets because in the long-term they are expected to produce returns higher than a portfolio which is closely matched to the liabilities. The Trustee is willing to accept a degree of risk primarily because of its assessment of the strength of the employer covenant.

How has this policy been met over the Plan Year?

The basis of the Trustee's strategy is to divide the Plan's assets between a "growth" category (comprising equities and property, but may also include limited exposure to other growth assets), a "high lease to value ("HLV") property" category and a "bonds" category (comprising liability driven investment ("LDI") assets and investment grade corporate bonds). The SAA is set to achieve the expected return required with an acceptable level of risk.

In December 2018, the Trustee entered into a deed of guarantee with the Company to enhance the employer covenant. The guarantee is conditional on the Trustee maintaining a SAA in line with an agreed Investment Protocol, which can be amended by mutual agreement between the Trustee and Company. In October 2022, the Trustee and Company agreed to accelerate the de-risking documented in the Investment Protocol dated April 2022 by four years. This involved an 8% reduction in the SAA to growth assets and a corresponding increase in the allocation to bonds. The transition of assets required to implement de-risking took place in November 2022.

Given the continued improvement in the Plan's funding position, the Trustee and Company agreed to further immediate and ongoing de-risking (amongst other things), in exchange for the deferral of deficit reduction contributions, in order to bank these funding gains. In particular, an immediate 10% reduction in the Plan's SAA to growth assets and corresponding increase in the allocation to bonds was agreed. Meanwhile, the Trustee and Company committed to further reduce the SAA to growth assets to 6.0% by 1 January 2032, commensurately increasing the allocation to bond assets over time. An amended Investment Protocol, reflecting this de-risking, was agreed in April 2023, while the transition of assets required to implement the agreed immediate de-risking took place in May and June 2023. The Schroders Asia-Pacific (ex-Japan) equity mandate was terminated as part of this transition.

As at the end of the Plan Year, the SAA was 30.5% growth, 4.0% HLV property and 65.5% bonds. Consistent with the de-risking agreed within the latest Investment Protocol, the Trustee has established an asset allocation flightpath that sets out how the Plan's investment strategy is expected to evolve over the period until 1 January 2032. This will act as a guide for future de-risking discussions.

In addition to the significant de-risking carried out over the Plan Year and the other changes the Trustee has agreed to make to the Plan's investment arrangements (discussed earlier in this statement), the Trustee has also reviewed the Plan's liability hedging arrangements. As at the end of the Plan Year, the Trustee expected the Plan's bond assets to capture 86% and 90% of the change in the actuarial liability value due to movements in interest rates and inflation expectations respectively (measured on a gilts +0.4% basis). The Trustee is currently considering the appropriate level of liability hedging to target, as well as how this can be delivered. The changes required to deliver the agreed target level of liability hedging are expected to be implemented in 2024.

The Trustee intends to revisit the case for introducing an allocation to secured finance in 2024, as a means of increasing diversification within the growth portfolio, noting that the Investment Protocol permits the Trustee to invest 6.0% of the Plan's assets in non-equity growth opportunities. However, the Trustee regards the basic distribution of the assets to be broadly appropriate for the Plan's objectives and liability profile.

DC

The Trustee's objective is outlined in Section 2.1 of this statement.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee regards its duty as making available a range of investment funds that will suit members' needs and risk tolerances through their working lives.

The Trustee has maintained a range of investment options for members to utilise in structuring their assets according to their individual objectives.

The Trustee believes that members should be encouraged to make their own investment decisions based on their individual circumstances. However, the Trustee recognises that members may not believe themselves qualified, or may not wish to make their own investment decisions. As such, in addition to a range of self-select fund options, the Trustee makes available a default investment strategy. This strategy aims to generate investment returns that are sufficient to provide a reasonable level of retirement benefits for members, given the level of contributions paid into the Plan. The Trustee acknowledges that this strategy will not meet the needs of every individual member.

A range of asset classes are included within the default investment option, including: equities and money market funds. The strategic asset allocation is set to achieve the expected return required to meet the objective of the default strategy in a risk controlled manner.

A similar set of asset classes as used under the default option (with the addition of index-linked gilts) has been made available for investment via the self-select fund range. Members can combine the self-select funds in any proportion in order to meet their individual needs.

The default strategy is reviewed on a triennial basis, with expected risk and return requirements being considered as part of such reviews. A review was undertaken in 2022, with the next formal review due to be carried out in 2025.

As a result of the 2022 review, the Trustee agreed to move from annual to quarterly lifestyle switching within the default strategy (amongst other things). This was in order to reduce the risk associated with transferring a significant proportion of members' accumulated pots from equities to cash on a single day each year, with no regard to prevailing markets. The Trustee implemented this change in early 2023.

The Trustee has continued to progress discussions in connection to the DC Section over the course of the Plan Year, establishing that there is the limited scope to effect change via the existing arrangement with BlackRock. As outlined earlier in this statement, the Trustee is currently considering alternative means of implementing the DC arrangements, in order to further improve the offering for members.

Strategic Asset Allocation ("SAA")

Risks, including the ways in which risks are to be measured and managed

Policy

The Trustee recognises a number of risks involved in the investment of the assets of the DB and DC Sections of the Plan and that the choice and allocation of investments can help to mitigate these risks. Details of these risks and how they are measured and managed can be found under Sections 3.2 and 5.2 of the SIP.

How has this policy been met over the Plan Year?

DB

The Trustee has considered both quantitative and qualitative measures of risks via quarterly reporting provided by the Investment Consultant and/or investment managers.

The Trustee continues to maintain a risk register, which sets out the key risks to which it was exposed, including investment risks. This rates the impact and likelihood of the various risks and summarises the existing mitigations and additional actions that are required. The Trustee reviewed the risk register over the course of the Plan Year and concluded that the risks identified were being appropriately managed and measured.

DC

Members of the DC Section of the Plan can combine the investment funds in any proportion in order to achieve the desired level of return and risk, in line with their own attitude and risk tolerance. Within the default option, the strategic asset allocation is set to achieve the expected return required to meet the objective of the default option in a risk controlled manner.

As already mentioned, the asset allocation of the default strategy is reviewed on at least a triennial basis, in line with regulatory requirements. The last review was undertaken in 2022. The review considered the underlying fund structure from a risk/return perspective and the Trustee is continuing to explore the options available for achieving greater diversification for members. The next formal review will take place in 2025.

3. Engagement Activity

The following are examples of engagement activity undertaken by the Plan's investment managers.

BlackRock engages with Shell Plc ("Shell) on their Energy Transition Strategy

DB DC

BlackRock has an extensive, multi-year engagement history with Shell, over which a range of corporate governance topics have been discussed. These include board composition, corporate strategy and the board's oversight of and management's approach to climate-related risks and opportunities.

Shell originally proposed their Energy Transition Strategy to shareholders at the May 2021 annual general meeting ("AGM"). The 2021 proposal received nearly 89% support from shareholders, including from BlackRock. Shell's current disclosure states that the company aims to reduce their scope 1 and 2 greenhouse gas ("GHG") emissions by 50% by 2030, compared to 2016 levels (on a net basis).

By 2022, operational emissions had been reduced by 30%. In addition, Shell has continued to deliver against their target to increase total capex spending on low and zero-carbon energy.

Overall, BlackRock believe that Shell has and continues to provide a clear assessment of their plans to manage climate-related risks and opportunities and has demonstrated continued delivery against their Energy Transition Strategy. In BlackRock's view, Shell's reporting and approach are aligned with clients' long-term financial interests. As such, BlackRock supported the management resolution to disclose Shell's progress against their Energy Transition Strategy at the AGM held in May 2023.

Genesis engages with PINFRA on ESG disclosure improvements

DB

Genesis have been engaging with PINFRA, a company that owns and operates concession infrastructure projects in Mexico (primarily highways), on ESG issues for several years. Genesis' focus continues to be on ESG disclosure improvements, particularly in relation to the company's safeguards and approach to bribery and corruption, as well as labour rights.

Until recently, the company had almost no ESG reporting or policy disclosure, while initial discussions with management highlighted that internal ethics and compliance policies had not been codified in multiple instances. Genesis felt it important to engage on this topic given the company's operations and risk of ethical misconduct.

After multiple years of engagement, the company released its first ESG report in 2023, having conducted significant work to formalise internal policies. The work undertaken was consistent with what the company had been communicating to Genesis in previous engagements, which Genesis considered to be a positive result. However, having reviewed the report, Genesis do not consider their engagement with the company to be complete and are currently working to set up a feedback meeting/call to discuss next steps.

Schroders engages with Swire Properties ("Swire") on climate change

DB

In Q1 2023, Schroders engaged with Swire as part of their climate engagement initiative to encourage companies to decarbonise their businesses towards Net Zero.

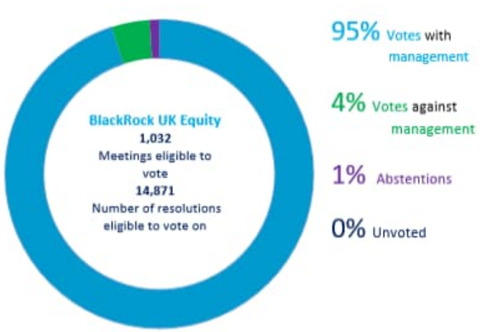
Swire is a leader in climate action in the sector and set targets validated by the Science Based Targets initiative in 2021. Since Swire is already close to hitting their 2025 targets, Schroders wanted to encourage further ambition for stronger goals.

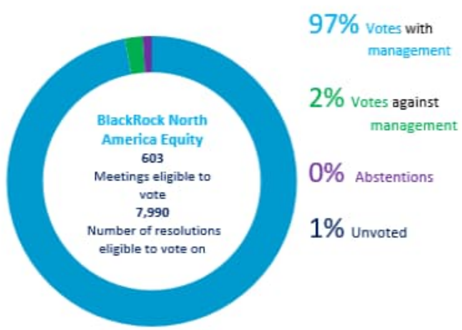
Swire was open in sharing challenges and future plans with Schroders, who felt that the firm demonstrated a clear desire to remain a leader in climate action. Strong ESG credentials were important to Swire as a means of helping to differentiate themselves in the market and secure market share.

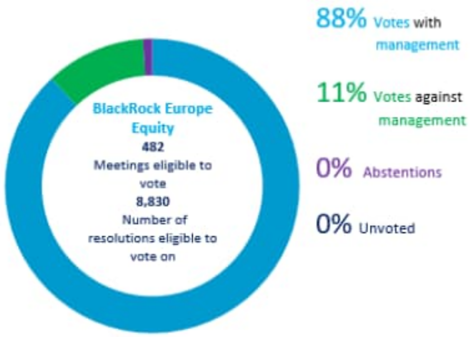
Swire has committed to sharing more on their progress and plans in future communications. Meanwhile, Schroders will continue to monitor the situation and encourage stronger ambitions.

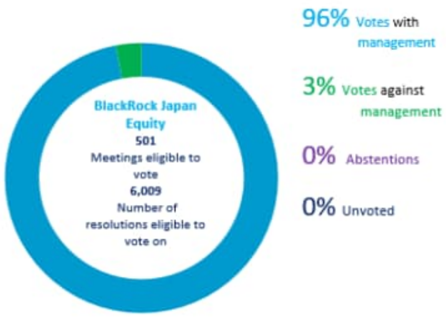
4. Voting Activity during the Plan Year

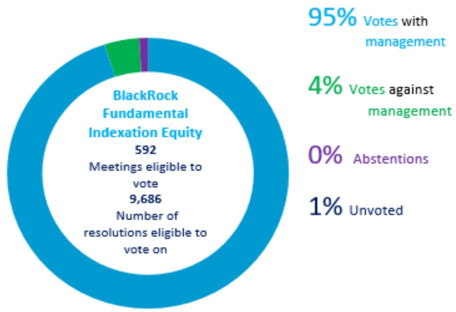
Set out below is a summary of voting activity for the relevant equity strategies within the DB Section of the Plan over the Plan Year.

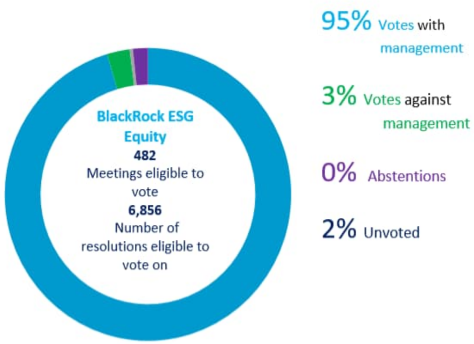


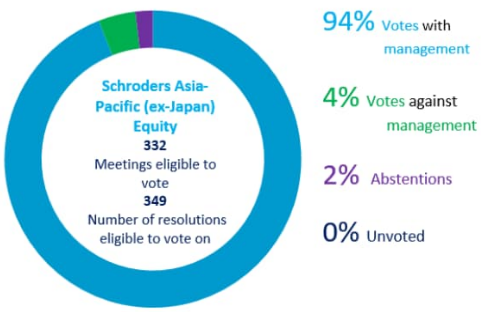


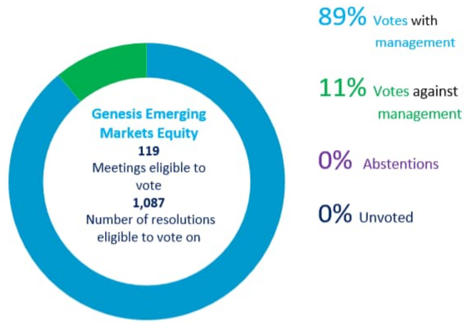












Source: Investment managers. Data may not sum due to rounding.

Most Significant Votes DB

The Table below sets out a summary of the most significant votes over the Plan Year. As outlined earlier in this statement, the Trustee defines a significant vote as one that is related to the Trustee's key stewardship themes/priorities, which refers to voting in relation to climate change, biodiversity, modern slavery and board diversity. The Trustee only considers a vote to be significant if it is in connection to a holding that represented at least 1% of the relevant fund as at the end of the Plan Year (where data is available). Any managers with voting rights who are not mentioned here did not engage in voting activity that met the Trustee's signficant vote definition.

Manager	Fund	Company	Date of vote	Holding size (% fund)	Summary of resolution	Trustee stewardship theme	How the manager voted	Rationale for voting decision	Final outcome
BlackRock	UK Equity / Fundamental Indexation Equity	Shell Plc	23 May 2023	7.2% / 1.2%	Approve Energy Transition progress update.	Climate Change	For	BlackRock supported this management proposal in recognition of the delivery to date against the company's Energy Transition Strategy.	✓
					Align existing 2030 reduction target covering the GHG emissions arising from the use of Shell's energy products (scope 3) with the goal of the Paris Climate Agreement.	Climate Change	Against	BlackRock did not support these shareholder proposals (in line with management) because they were overly prescriptive and unduly constraining on management's decision making in their view. In particular, BlackRock felt that adhering to the proponents' requests for the company to set an absolute reduction target for their scope 3 GHG emissions would require Shell to reduce product sales or alter their business composition, which could impact the company's financial strength and unduly constrain management. BlackRock therefore determined that the proposals were not aligned with the financial interests of shareholders.	✗
					Adopt medium term scope 3 GHG reduction target.	Climate Change	Against		✗
BlackRock	North America Equity	ExxonMobil Corporation	31 May 2023	1.2%	Establish Board Committee on decarbonisation risk.	Climate Change	Against	BlackRock did not support this shareholder proposal (in line with management) because there did not appear to be any demonstrable economic benefit to shareholders in their view.	✗
					Report on carbon capture and storage.	Climate Change	Against	BlackRock did not support these shareholder proposals (in line with management) as the company already had policies in place (or was enhancing its policies) to address the requests. Based on BlackRock's assessment, the financial cost to the company to respond directly to the proposals outweighed any incremental informational benefit to investors.	✗
					Report on methane emission disclosure reliability.	Climate Change	Against		✗
					Report on worst-case impacts of oil spills from operations offshore of Guyana.	Biodiversity	Against		✗

Manager	Fund	Company	Date of vote	Holding size (% fund)	Summary of resolution	Trustee stewardship theme	How the manager voted	Rationale for voting decision	Final outcome
BlackRock	North America Equity	ExxonMobil Corporation	31 May 2023	1.2%	Adopt medium term scope 3 GHG reduction target.	Climate Change	Against	BlackRock did not support this shareholder proposal (in line with management) because the methodology for setting scope 3 targets in carbon intensive industries was still under development in their view. Until there is a common framework for managing the related uncertainty and complexity, BlackRock will look to company management to determine the appropriate disclosures to help investors understand their approach. In addition, BlackRock felt that complying with the specific ask of the shareholder proposal could be unduly constraining on management and the board's ability to set the company's long-term business strategy.	✗
					Recalculate GHG emissions baseline to exclude emissions from material divestitures.	Climate Change	Against	BlackRock did not support these shareholder proposals (in line with management) as they felt that the requests were either not clearly defined, too prescriptive, not in the purview of shareholders, or unduly constraining on the company.	✗
					Report on asset retirement obligations under International Energy Agency Net Zero Emissions Scenario.	Climate Change	Against		✗
					Report on potential costs of environmental litigation.	Climate Change / Biodiversity	Against		✗
Schroders	Asia-Pacific (ex-Japan) Equity	Incitec Pivot Limited	16 Feb 2023	1.7%	Approve progress on climate change transition.	Climate Change	For	Schroders supported this management proposal in recognition of the progress made to deliver the company's objectives. The company has set a net zero target by 2050 with a 25% absolute reduction of operational GHG emissions by 2030. In the 2022 report, management outlined a strategy for how they will achieve their 2030 target through four key projects, which aim to deliver a >42% reduction in operational emissions. In Schroders view, this demonstrated tangible progress.	✓

Manager	Fund	Company	Date of vote	Holding size (% fund)	Summary of resolution	Trustee stewardship theme	How the manager voted	Rationale for voting decision	Final outcome
Schroders	Asia-Pacific (ex-Japan) Equity	Westpac Banking Corp.	14 Dec 2022	3.0%	Approve climate risk safeguarding.	Climate Change	For	Schroders supported these shareholder proposals (against management), as they felt that it would maximise value for their clients. In principle, more disclosure on the companies' climate change policies was desirable.	✗
		Australia and New Zealand Banking Group Limited	15 Dec 2022	3.3%	Approve climate risk safeguarding.	Climate Change	For		✗
		National Australia Bank Limited	16 Dec 2022	2.5%	Approve climate risk safeguarding.	Climate Change	For		✗
		BHP Group Limited	10 Nov 2022	7.7%	Approve Environmental Policy advocacy.	Climate Change	Against	Schroders voted against this shareholder proposal (in line with management) as the request was very broad and at the same time prescriptive. Meanwhile, it appeared to take away the board's ability to determine advocacy. The company argued that it already advocated for Australian policy settings that were consistent with the Paris Agreement's objective of limiting global warming to 1.5ºC and the proposed resolution unduly interfered with its ability to assess future policy proposals.	✗
					Approve climate accounting and audit.	Climate Change	Against	Schroders voted against this shareholder proposal (in line with management) as the proponents request appeared to be overly prescriptive in their view. Furthermore, the company explained that including the information being requested in its audited financial statements represented a conflict with the applicable accounting standards.	✗

Manager	Fund	Company	Date of vote	Holding size (% fund)	Summary of resolution	Trustee stewardship theme	How the manager voted	Rationale for voting decision	Final outcome
Schroders	Asia-Pacific (ex-Japan) Equity	Woodside Energy Group Ltd.	28 Apr 2023	1.6%	Disclose information that demonstrates how the company's capital allocation to oil and gas assets will align with a scenario in which global energy emissions reach net zero by 2050.	Climate Change	Against	Schroders voted against this shareholder proposal (in line with management) as, in their view, it appeared that the company was already taking appropriate steps to keep the market and shareholders informed of its operations, ongoing and new development projects and how its business was dealing with the impacts of climate change on product demand. In particular, in its Climate Report 2021, the company disclosed that its objective was to thrive through the energy transition as a low-cost, lower carbon energy provider, meet its near and medium term targets to reduce scope 1 and 2 GHG emissions and target investment of $5bn in new energy products and lower-carbon services by 2030, as part of its scope 3 emissions reduction plan.	✗

Source: Based on the information made available by the investment managers. The investment managers did not provide any information regarding whether they communicated votes against management prior to voting, nor regarding the implications and/or follow-up actions undertaken in respect of particular votes.

✓ resolution passed ✗ resolution **not** passed