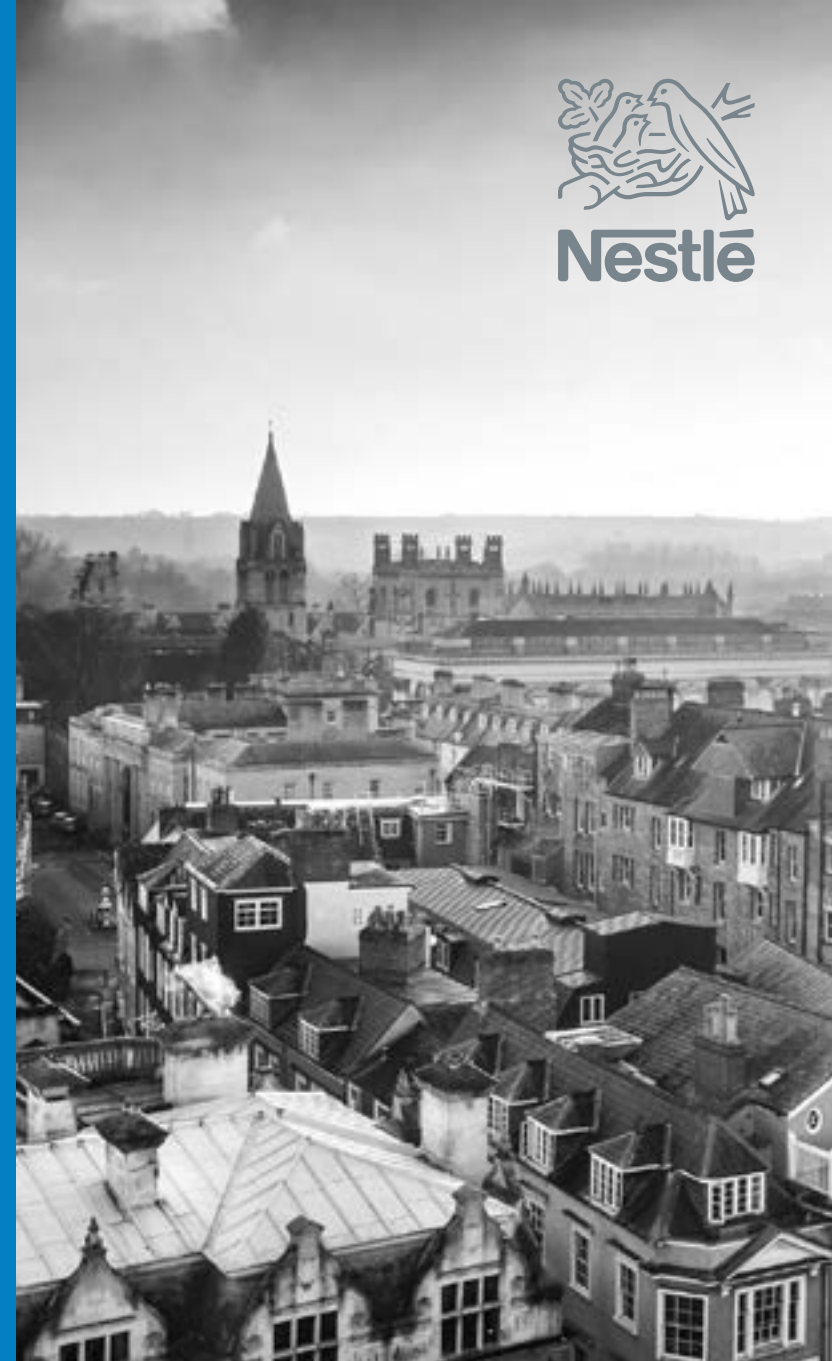


# Annual statement regarding governance of the DC sections of the Fund



# 1. Introduction

This statement has been prepared by the Trustee (the 'Trustee') of the Nestlé UK Pension Fund (the 'Fund') in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations ('the Administration Regulations') 1996 (as amended). The content of the statement is set out in pensions law, but we hope you find it useful.

The statement describes how the Trustee has met the statutory governance standards in relation to:

- the default investment arrangements in the DC Start and DC Core sections;
- requirements for processing DC financial transactions;
- assessment of charges and transaction costs that apply to the investment funds in the DC sections;
- the requirement for trustee knowledge and understanding

between 1 January 2018 and 31 December 2018 ('the Fund Year').

The Trustee has a Defined Contribution Committee ('DCC') that meets each quarter to ensure that enough time is spent running the Fund properly and with the appropriate level of governance. The meetings over the period were on 28 February 2018, 21 May 2018, 23 August 2018 and 20 November 2018. This committee has helped to ensure that the Trustee has met the statutory governance standards required over the period. Hymans Robertson are the appointed DC investment adviser and attend the DCC meetings each quarter.

Nestlé Pensions are the administrators of the Fund. Fidelity provide the investment platform.

This statement will be uploaded to [nestlepensions.co.uk](https://www.nestlepensions.co.uk) to provide access for members.



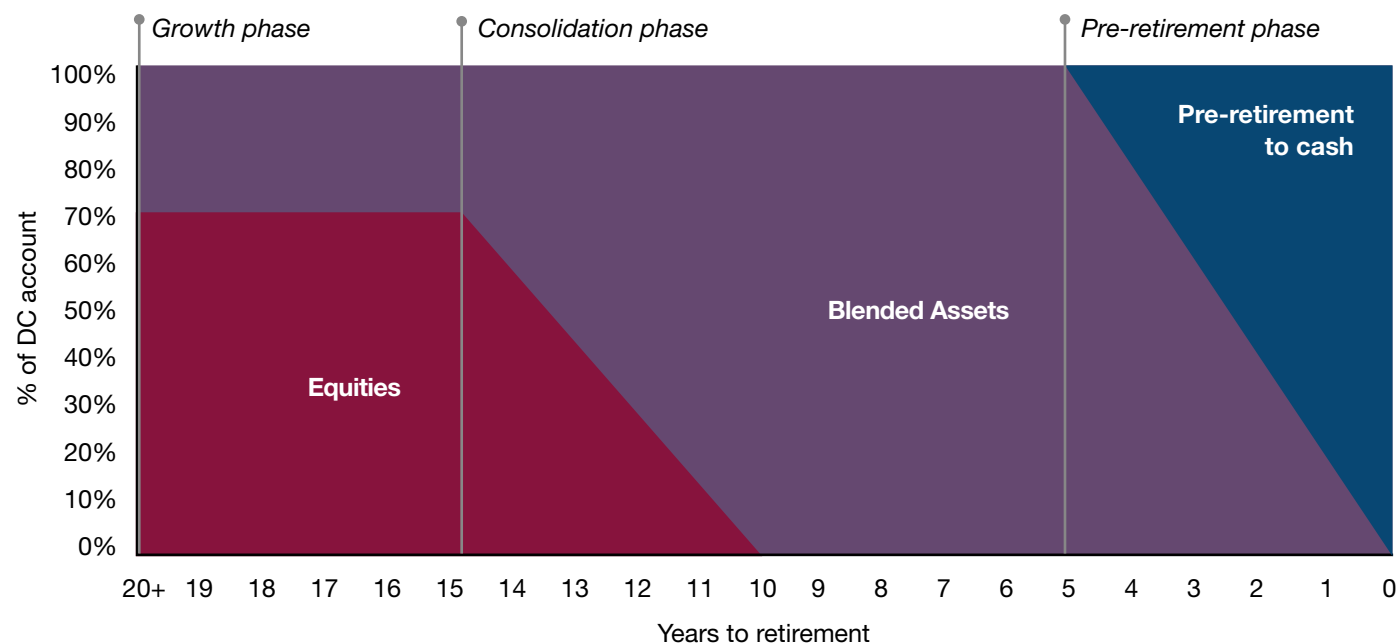
## 2. Default DC investment arrangement

Members of DC Core can choose which investment funds their money is invested in from a range of options. DC Core members who do not make a choice, and all DC Start members, are invested in the Lifetime Pathway fund – the default DC investment arrangement.

The Lifetime Pathway fund has been in place since August 2017 (for the purposes of the Administration Regulations). The Lifetime Pathway fund invests contributions in different types of assets according to how far each member is from retirement. Underlying investments are switched from those which are expected to be higher risk growth like assets to investments which are anticipated to be more stable, and eventually into cash over a 15 year period before retirement.

The Trustee is satisfied that the default arrangement is appropriate for the majority of the Fund's members because:

- A significant proportion of the membership are expected to have broadly similar investment needs. The default has been designed with this in mind.
- The Trustee believes that it is in the best interests of members to have a default option that targets how they expect the majority of members to use their DC accounts at retirement. Membership analysis carried out at the time of the investment strategy review suggests that most members take their DC accounts as cash at retirement.



### 2.1 Statement of investment principles

The main investment principle governing the default arrangement is:

- To provide good member outcomes at retirement while subject to a level of investment risk that is appropriate to the majority of members who do not make active investment choices. The strategy invests contributions in accordance with a pre-defined asset allocation.

In [Schedule 1](#) of this statement is a copy of the Fund's latest [DC Statement of Investment Principles](#) governing decisions about investments for the purposes of the default arrangement. This has been prepared in accordance with regulation 2A of the Occupational Pension Funds (Investment) Regulations 2005 (the 'Statement of Investment Principles').

## **2.2 Review of the DC investment arrangements**

A full investment review in line with statutory requirements was last carried out in Q4 2016 with changes implemented in August 2017. As such, the Trustee did not carry out a full review of the default investment arrangement during this Fund Year. The Trustee will carry out a light touch review in Q1 and Q2 2019 which will be in line with statutory requirements. The Trustee also intend to carry out a further review in Q4 of 2020 or Q1 of 2021.

The Trustee is satisfied that the default arrangement remains appropriate for the majority of the Fund's members because:

- Its design continues to meet its principal investment objectives;
- The demographic profile of the membership has not changed materially; and
- Members' needs and likely benefit choices at retirement have not changed materially.

### 3. Requirements for processing DC Core financial transactions

'Core financial transactions' include (but are not limited to):

- investment of contributions in the DC Start and DC Core sections;
- transfers of assets relating to members into and out of the DC Start and DC Core sections;
- transfers of assets relating to members between different investments within DC Start and DC Core; and
- payments from the Fund to, or in respect of, members.

During the Fund Year, the Trustee ensured that 'core financial transactions' were processed promptly and accurately by:

- Monthly monitoring and quarterly reporting of DC processing and member transaction service level agreements (SLAs). The SLAs were set by the Trustee and DCC and agreed with the in-house pension administration team.
- Monthly monitoring and quarterly reporting of contribution receipt against the SLAs.
- Monitoring that contributions are invested within 3 working days of completion of a reconciliation exercise.
- Reviewing each quarter the accuracy of basic member information held on the pension administration system.

The administration report covering these areas is presented at every DCC meeting with representatives of the administration leadership team attending and accountable for issues. These reports demonstrated that the administrator was operating within the agreed SLAs set out in the administration agreement. In addition:

- the Nestlé Pensions DC processing team perform a reconciliation of monthly contributions;
- the Nestlé Pensions accounts and DC processing teams monitor receipts of contributions into the DC bank account;
- the monthly contributions schedule detailing dates of receipt is reported at each quarterly DC Committee meeting; and

- the Nestlé Pensions DC processing and accounts teams monitoring the DC bank account each day and reconcile the DC bank account each month.

Members have a quarterly opportunity to switch their DC investments. Quarterly investment switches are processed each February, May, August and November and quarterly life-styling is done in the months of January, April, July and October.

The Nestlé Pensions DC processing team perform monthly unit reconciliations between the pension administration system and the Fund Manager.

All investment trades and bank account transactions are checked and then authorised by separate individuals within one or more of the Nestlé Pensions DC processing/ Pension accounts/Service delivery teams.

The oversight of all service standards for the DC section is performed by the DCC.

The Trustee is comfortable that these internal controls are reasonable and appropriate and that they evidence accuracy and promptness during the Fund Year. The Trustees are satisfied that the DC financial transactions have been processed accurately and promptly.

## 4. Assessment of member-borne charges and transaction costs

### 4.1 Level of member-borne charges and transaction costs

The charges and transaction costs borne by members and the Employer for the Fund's services are:

Service	By members	By the Employer
Investment management	✓	
Administration		✓
Governance		✓
Investment transactions	✓	

The presentation of the charges and transaction costs, together with the projections of the impact of charges and costs, have taken into account the statutory guidance issued by the Department for Work and Pensions.

#### Charges

The charges quoted in this statement are the funds' Total Expense Ratios ('TERs'). The TER consists of a fund's Annual Management Charge ('AMC') and Operating Costs and Expenses ('OCEs'). OCEs include, for example, the fund's custodian costs. While the AMC is usually fixed, the OCEs, and hence the TERs, can vary slightly from day to day.

#### Transaction costs

The funds' transaction costs are in addition to the funds' TERs and can arise when:

- The fund manager buys or sells part of a fund's portfolio of assets; or
- The platform provider or fund manager buys or sells units in an underlying fund.

Transaction costs vary from day to day depending on where each fund is invested and stock market conditions at the time. Transaction costs can include: custodian fees on trades, stockbroker commissions and stamp duty (or other withholding taxes).

Transaction costs are taken into account when the fund's unit price is calculated. This means that transaction costs are not readily visible, but these costs will be reflected in a fund's investment performance.

The Financial Conduct Authority (FCA) requires fund managers and providers to calculate transaction costs using the 'slippage method', which compares the value of assets immediately before and after a transaction has taken place. This can give rise to negative transaction costs where favourable stock market movements during a transaction offset the rest of the trading costs (such as stockbroker commission).

The transaction costs shown in this statement do not include any costs members may incur from buying or selling units in the provider's funds as a result of the fund manager's fund price moving from a 'bid' to 'offer' basis (or vice versa).

### Charges for the default arrangement

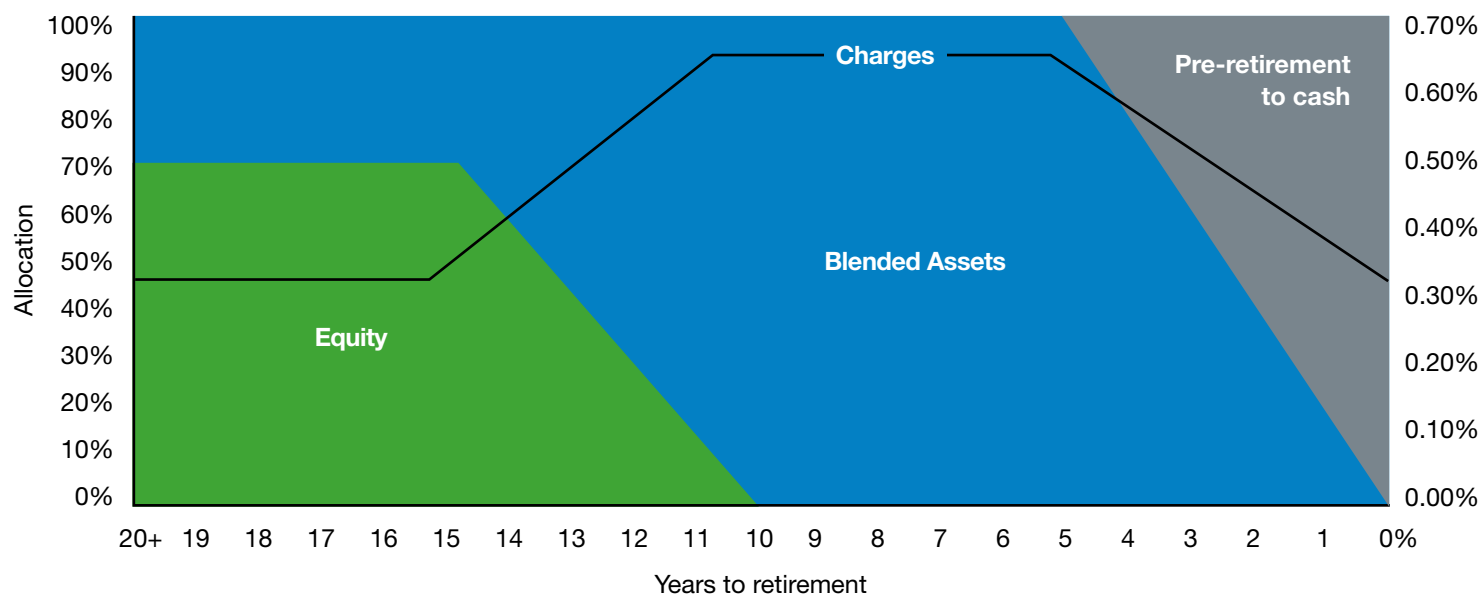
The default arrangement is a 'lifestyle strategy' which invests contributions in funds according to how far each member is from retirement. As a result, charges borne by each member can vary from one year to the next. The glidepath for the Lifetime Pathway fund is shown on [page 3](#).

During the year covered by this Statement, the member-borne charges for the default arrangement ranged from 0.31% to 0.65% of the amount invested or, in cash terms, in a range from £3.10 to £6.50 per £1,000 invested:

Period to retirement	Charge	
	% p.a.	£ per £1,000 invested
15+ years	0.33%	£3.30
13 years	0.46%	£4.60
Between 5 and 10 years [when charges are at their highest]	0.65%	£6.50
3 years	0.51%	£5.10
At retirement	0.31%	£3.10

Source: Fidelity

The following chart also shows graphically how these charges vary from year to year:



The average charge for the default Lifetime Pathway over a 40-year savings period was 0.41% of the amount invested or, put another way, £4.10 for each £1,000 invested.

The table in [Schedule 2a](#), on [page 32](#), gives the charges for each fund used by the default Lifetime Pathway arrangement.

The Fund is a qualifying scheme for auto-enrolment purposes and the member borne charges for the default arrangement complied with the charge cap during the year covered by this Statement.



### **Transaction costs for the default arrangement**

The default lifestyle strategy is made up of three underlying funds; Equities, Blended Assets and Pre-retirement to cash. The transaction costs for the default fund ranged from 0.06% to 0.44% p.a.

The table in [Schedule 2a](#) gives the transaction costs for each fund used in the default Lifetime Pathway arrangement.

### **Charges for the investment options outside the default arrangement**

Members of DC Core can choose to invest their funds from a range of options. These are called 'self-select' funds.

#### **Self-select funds**

The Fund offers members a choice of 9 self-select funds.

During the year, the charges for the self-select funds were in a range from 0.17% to 0.65% of the amount invested or, in cash terms, in a range from £1.70 to £6.50 for each £1,000 invested.

The table in [Schedule 2b](#), on [pages 33-34](#) gives the charges for each self-select fund.

### **Transaction costs for the investment options outside the default arrangement**

#### **Self-select funds**

The transaction costs borne by members in the self-select funds over periods for which costs have been obtained for were in a range from -0.02% to 0.44% of the amount invested or, in cash terms, in a range from -£0.20 to £4.40 for each £1,000 invested. These transaction costs cover different periods, depending on the fund, which are detailed in [Schedule 2b](#).

The table in [Schedule 2b](#) gives the transaction costs for each self-select fund.

#### **Additional Voluntary Contributions ('AVCs')**

Members in the Fund are also able to hold AVCs. These members can invest their AVCs in the self-select funds offered, as detailed in [Schedule 2b](#).

The Fund also holds historic AVCs.

### **Charges for AVCs**

During the year, the charges for the AVC funds open to new contributions were in a range from 0.17% to 0.65% of the amount invested or, in cash terms, in a range from £1.70 to £6.50 for each £1,000 invested. Members can invest in the self-select funds detailed in [Schedule 2b](#).

The Fund also holds historic AVCs with the following providers:

- Standard Life
- Equitable Life
- Clerical Medical

Charges borne by members applying to these funds were in the range from 0.495% to 2.19% or, in cash terms, £4.95 to £21.90 per £1,000 invested.

The Trustee undertook a review of historic AVCs in 2018. Following this review, the Trustee concluded that these arrangements no longer provided sufficiently good value for members and consequently are planning on transitioning the historic unit-linked AVC funds to the DC Core section. Members will have access to the Nestlé Lifetime Pathway and other self-select funds.

The table in [Schedule 2c](#), on [pages 35-38](#), gives the charges for each historic AVC fund.

### **Transaction costs for AVCs**

The transaction costs borne by members in the AVC funds open to new contributions during the year were in a range from -0.02% to 0.44% of the amount invested or, in cash terms, in a range from -£0.20 to £4.40 for each £1,000 invested. These transaction costs cover different periods, depending on the fund, which are detailed in [Schedule 2b](#).

The transaction costs borne by members in the historic AVC arrangements during the year were in the range 0% to 0.29% of the amount invested or, put another way, in a range from £0.00 to £2.90 for each £1,000 invested. These transaction costs cover different periods, depending on the fund, which are detailed in [Schedule 2c](#).

The table in [Schedule 2c](#) gives the transaction costs for each AVC fund.

## **AVCs invested in With Profits**

Some members' AVCs are invested in the Equitable Life with-profits fund, the Standard Life With Profits One Fund and the Standard Life With Profits One 2006 Fund.

The charges and transaction costs for with-profits funds are deducted from the overall fund before bonus rates are set for all policyholders. As a result, it is not possible to determine the exact charges and costs borne by members.

The Principles and Practices of Financial Management for the Equitable Life with-profits fund state that the administration and investment charges should average 1.5%. Standard Life do not give an indication of the average level of expenses the Funds expects to incur.

It should be noted that the implicit charges for the with-profits fund cover the cost of guarantees and reserving as well as investment management and administration.

The Trustee assessed the value for members provided by these historic with-profits AVC arrangements separately in 2018. Following this review, the Trustee concluded that although existence of terms relating to bonuses and/or transfer values meant that the analysis was not straightforward, they were able to establish that they provided fair value to members. The Trustee agreed it would not be in the members' best interests to transfer these funds elsewhere.

## **Missing information**

The Trustee has been unable to obtain information on:

- The transaction costs for some of the Standard Life AVC funds during the period covered by this Statement. The Trustee requested information from Standard Life for all AVC funds. Standard Life were not able to provide complete data. Therefore, some AVC transaction costs have not been provided and others have been provided over a different period to the period covered by the statement.

The following steps are being taken to obtain the missing information for the future:

- The Trustee requested the information from the Standard Life.
- The Trustee will continue to monitor the provider's and fund managers' progress on implementing the FCA rules on transaction cost disclosure which came into force on 3 January 2018 with a view to providing this information next year.

The missing information listed to the left, means that the Trustee has not been able to fully compare the funds' transaction costs against other schemes. These issues currently affect many pension schemes and pension providers but are being resolved by providers. So, the amount of comparative information available should improve over the next few years.

## **Impact of costs and charges**

The Trustee has asked the Fund's investment adviser Hymans Robertson to illustrate the impact over time of the costs and charges borne by members.

These illustrations show projected fund values in today's money before and after costs and charges for a typical member based on their average age, salary, pot size and normal retirement age.

The tables in [Schedule 3](#), on [pages 39-41](#), show these figures for the default arrangement and the most popular self-select funds, including a high risk and low risk fund, together with a note of the assumptions used in calculating these illustrations.

As an example, for a member in the default arrangement, paying the lowest level of contributions (4% employee and 5% employer) who is age 34 with a pot size of £5,000, a salary of £32,000 and a normal retirement age of 66, the level of charges and costs seen in the last year would reduce their projected pot value at retirement in today's money from £106,152 to £98,484.

As another example, for a member in the default arrangement, paying the highest level of matched contributions (8% employee and 12% employer) who is age 34 with a pot size of £5,000, a salary of £32,000 and a normal retirement age of 66, the level of charges and costs seen in the last year would reduce their projected pot value at retirement in today's money from £229,308 to £213,078.

Please note:

- These illustrated values are not guaranteed and may not prove to be a good indication of how your own savings might grow.

## 4.2 Value assessment

In accordance with regulation 25(1) (b) of the Administration Regulations, the Trustee assessed the extent to which the charges and transaction costs set out in [section 4.1](#) above represent good value for members.

The Trustee's definition of 'value for members', in line with the Pensions Regulator ('TPR')'s guidance, is one in which the cost of membership provides good value in relation to the services it provides to members, when compared with other options available in the market.

Value is not simply about low cost – the Trustee also considers the quality of the services which members pay for. With the help of their advisers the Trustee compares the charges and costs as well as the quality of the services against other similar funds.

In keeping with the guidance from the Pensions Regulator, the Trustee, together with Hymans Robertson, have used the following method to assess value for members:

- Considered the Fund's investment charges and transaction costs as these are the only costs borne by the members.
- Considered the Fund's membership characteristics and weighted each of the areas according to its likely impact on member outcomes.
- Gathered information and evaluated how the services perform against the agreed metrics, taking into account cost, quality and scope of provision against any available external benchmarking assessment.
- Agreed an action plan with clear timescales where the Trustee believes the Fund is not providing value for members, is missing information, or areas which should be improved.

**Overall the Trustee concluded that the Fund represents good value for members. The Trustee's rationale is as follows:**

- The Lifetime Pathway fund (the default strategy) is under the 0.75% p.a. charge cap requirement and moves from 0.33% (during the growth phase), 0.65% (during part of the consolidation phase between 5 and 10 years from retirement) to 0.31% (at the end of the de-risking phase). Over a 40-year saving period the average charge is therefore 0.41% p.a. The Trustee notes that this compares similarly with the DWP's 2016 pensions survey average charge of 0.41% p.a. for a trust-based qualifying scheme with more than 1,000 members.
- The Trustee provides 9 further funds for the membership to choose from. The Trustee considers that this is a suitable range of self-select funds given membership characteristics. The total charges for the self-select funds range from 0.17% to 0.65% which is comparable to the Fund's peer group. The Trustee considers the charges as reasonable value for members.
- The transaction costs for the funds ranges from -0.02% to 0.44%, which the Trustee (whilst accepted there is limited data available) believes is in line with other schemes.
- Performance for most funds remains broadly in line with respective benchmarks (after charges) over the period. Some funds have performed below their benchmark since inception (August 2017). The Trustee considers this to be a relatively short time period to measure performance. Furthermore, the Trustee and its DC investment advisor continues to monitor charges and receives quarterly detailed investment reports.

### **AVCs value for members**

Information on the AVCs held by the Fund is detailed on [page 9](#) of this Statement.

### **With Profits value for members**

Information on the With Profits funds held by the Fund are detailed on [page 10](#) of this Statement.

## Action Plan

Over the last 12 months the Trustee has undertaken the following to improve value for members.

- Fund fees, suitability and performance have been regularly assessed through input from the Fund's DC investment advisor;
- The Trustee monitors and reviews fund performance, suitability and charges on a quarterly basis;
- Following changes to the management team of one of the underlying components in the blended Pre-Retirement to Cash fund, the Trustee put the fund on watch in Q4 2018 and subsequently made the decision to switch the underlying investment in Q1 2019;
- Following the AVC review, the Trustee concluded that the unit-linked AVC funds held with Equitable Life, Standard Life and Clerical Medical no longer provided good value for members and therefore the Trustee is planning to transfer members' funds to the DC Core section where members can access the Lifetime Pathway and self-select funds which provide better value for members than the previous arrangements. The Trustee concluded that the with-profits funds offered fair value for members and should not be disinvested; and
- Agreed a plan with Fidelity to reduce the AMC as the assets under management increase.

During the next 12 months the Trustee intends to:

- Undertake a review of the investment strategy in Q1 and Q2 2019 to ensure the strategy remains appropriate for members and maximises the chance of a good outcome in retirement;
- Undertake a mid-year review to monitor value for members progress and further embed value into the Fund's governance;
- The Trustee will continue to monitor the provider's and fund managers' progress on implementing the FCA rules on transaction cost disclosure which came into force on 3 January 2018 with a view to providing this information next year;

- Continue to regularly review funds and monitor performance;
- Formalise its investment beliefs on responsible investing (taking into account Environmental, Social and Governance (ESG) considerations) and update the Statement of Investment Principles to reflect the September 2018 Regulations on Responsible investment which come into force on 1 October 2019;
- Continue with the AVC transition exercise of unit-linked funds from Standard Life and Clerical Medical to the DC Core section;
- Carry out a Guided Outcomes assessment for all members in the Fund to determine if members are likely to hit their target retirement income level and how to improve outcomes upon retirement; and
- Consider broadening the value for members assessment to include employer only borne charges and undertake an overall value for money assessment.

## 5. Trustee knowledge and understanding

Every Trustee is made aware of the requirements of Trustee knowledge and understanding (TKU) and any individual training needs are identified and managed accordingly. All current Trustee Directors have completed the Trustee Toolkit.

During each Fund Year it is expected that the Trustee Directors have met the requirements of sections 247 and 248 of the 2004 Act (requirements for knowledge and understanding) by undertaking training. The full Trustee Board undertakes an ongoing programme of training throughout the scheme year to meet the knowledge and understanding requirements. Over the course of the scheme year, the full Trustee Board received training from its advisers on a range of topics relevant to DC benefits, including General Data Protection Regulation ('GDPR'), Environmental, Social and Governance ('ESG'), disputes and member engagement.

During the course of the year, the Nestlé Pensions team undertook a review of the performance and effectiveness of the Board. The review concluded that the Board was working well but nevertheless a training plan was agreed with the Fund advisers to further enhance the Board's capabilities. Following this, the annual training day, run on 10 December 2018 covered:

- post retirement issues in the DC world;
- the governance structure of the Fund including trustees roles and responsibilities (where training from independent experts, Bath Actuarial, was given);
- the regulatory framework and developments on ESG and how to integrate ESG factors in investment decisions; and
- an update on the decisions that Trustees will have to take in relation to Guaranteed Minimum Pension ('GMP') rectification and equalisation.

All Trustee Directors are encouraged to raise issues or suggestions on an on-going basis and have easy access to the Chairman in order to do this. It is intended that a review of trustee effectiveness will be undertaken during 2019 onwards and that regular reviews will be carried out going forwards.

In addition, the Trustee receives advice on investment, legal and other issues from Hymans Robertson and Sackers when necessary. The Trustees' advisers attend board meetings and sub-committee meetings as appropriate and their advice includes

training and or the provision of relevant information to support decision-making. The Trustee also has access to regular bulletins and newsletters from its advisers. Planning meetings are arranged for all full Board and Defined Contribution sub-committee meetings and representatives from Nestlé Pensions, Sackers and Hymans Robertson attend these to ensure that service and technical aspects are explained and understood and that the training and information needed to support TKU and effective decision making are provided. There is an experienced Chief and Investment Risk Officer who supports the Board and brings ideas on emerging market practice in relation to DC to the Board.

Training is recorded in the 2018 training log. New trustees are expected to complete the Trustee Toolkit within 6 months of appointment and, to help with this, training is made available to them including the opportunity of attending an initial training day with the Fund advisers. This training (as with ongoing training) has the aim of giving them a working knowledge of the Fund trust deed and rules, the statement of investment principles and other documents setting out trustee policies, as well as giving them an understanding of the law relating to pensions and trusts, as well as funding and investment in relation to both the DB and DC elements of the Fund.

The initial training for new trustees and the evaluation of ongoing performance and effectiveness of the Trustee Board to identify training needs, together with the advice sought from advisers, which takes account of matters likely to arise for consideration by the Board, enables the Trustee to properly exercise its functions as Trustee of the Fund.

Signed on behalf of the Trustee Board

Steve Delo - Chair of the Trustee Board

26 June 2019

# Schedule 1

## DC Statement of Investment Principles for the Nestlé UK Pension Fund

### 1 Introduction

#### 1.1 Background

This Statement of Investment Principles ('Statement') sets out the policy of Nestlé UK Pension Trust Limited as Trustee of the Nestlé UK Pension Fund (the 'Fund'). It sets out the principles governing investment decisions for the Fund. The Fund comprises of both defined benefit (DB) and defined contribution (DC) sections. This Statement covers the defined contribution section (DC Section) only.

It is intended that this Statement should be 'principles based' in nature, and as such further details on the specific elements of the investment strategy are contained in a separate document, called the Investment Implementation Document ('IID'). Both the Statement of Investment Principles and the IID should be read in conjunction.

#### 1.2 Statutory Information

This Statement has been prepared in accordance with the requirements of sections 35, 36 and 56 of the Pensions Acts 1995 and 2004. The Trustee of the Fund has considered written advice from its Investment Consultant and has consulted with the Principal Employer to the Fund (Nestlé UK Limited) in producing this Statement.

The Trustee will review this Statement (and the Investment Implementation Document), in consultation with the Investment Consultant and the Principal Employer, at least every three years and without delay after any significant change in investment policy or demographic profile of the Fund's membership.

### 2 Defined Contribution Principles

Members contributions (including those of the employer) are directed into the DC Start or DC Core of the Fund (herein referred to as the 'DC Section').

#### 2.1 Overall objectives

The Trustee's overall objective is to invest contributions in the best interests of members and their beneficiaries.

The Trustee believes that understanding the demographics and likely attitudes to risk/reward of members are essential to developing and maintaining an appropriate investment strategy. It is also believed that members typically seek to optimise the value of their retirement benefits from a given level of contributions, while aiming to protect the value of those benefits in the years approaching retirement against market falls and fluctuations in the costs of 'converting' fund values into retirement benefits/income streams.

#### 2.2 Investment strategy

The DC Section makes available both a default 'lifestyle strategy' (Default Option), for members who choose not to make an active investment choice, and individual funds on a 'self-select' basis (which includes the funds underpinning the Default Option) for members who wish to make their own investment choices. Members in DC Start have their accounts automatically invested in the Default Option while members in DC Core have a choice about where their account is invested. Full details of the funds available are contained in the IID accompanying this Statement.

**Default Option:** The main objective of the Default Option is to provide good member outcomes at retirement while subject to a level of investment risk which is appropriate to the majority of members who do not make active investment choices. The strategy invests contributions in accordance with a pre-defined asset allocation.

**Self-select funds:** The self-select fund range is provided for members who want to take an active part in choosing where their accumulated fund is invested and complements the default option. The self-select fund range covers a spectrum of investment risk levels and investment approaches, so that members can tailor the investment of their accumulated fund more closely to their personal needs and attitude to risk – although it cannot be expected to cover all the investment needs of all members.

## 2.3 Kinds of investments to be held

The DC Section invests through pooled investment vehicles considered appropriate for tax-exempt approved occupational pension schemes. These funds may invest in:

- Quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, commercial and residential property;
- Infrastructure and commodities through collective investment vehicles;
- Derivatives.

The Trustee believes that both active and passive management have a place in DC arrangements. Some asset classes or investment approaches (such as cash and diversified growth strategies) are only available as actively managed funds.

The Trustee considers that all of the stated asset classes are suitable investments for the DC Section, while the use of pooled funds enables a balance of investments to be held at a security level within each asset class or fund, and permitting exposure to certain asset classes that would otherwise not necessarily be accessible at reasonable cost.

## 2.4 Balance between different kind of investments

Given the size and nature of the DC Section, the Trustee invests on a pooled fund basis. The investment managers are expected to maintain diversified portfolios. Subject to the funds' benchmarks and guidelines, the investment managers are given discretion over the choice of securities and, for 'multi-asset' funds, of asset classes.

The Trustee is satisfied that the range of funds used by the DC Section provide adequate diversification within and across asset classes.

## 2.5 Investment risks

### Principal risks

The principal investment risks which most members face are:

**Inflation risk** – The risk that the investment returns over members' working lives will not keep pace with inflation and do not produce adequate retirement benefits.

For members further from retirement, the Default Option invests in 'return-seeking' assets during the 'growth' phase, which are expected to produce returns well in excess of inflation over the longer term.

**Benefit conversion risk** – The risk that market movements in the period just prior to retirement lead to an increase in the cost of turning members' fund values into retirement benefits.

Following the previous freedoms introduced in April 2015, the Default Option has been designed to facilitate members taking cash and/or income drawdown at retirement by switching into cash and into a lower volatility portfolio of assets during the pre-retirement phase.

For members planning to buy an annuity at retirement, the DC Section makes available, on a self-select basis, an annuity fund, which may be expected to broadly follow movements in annuity rates caused by interest rate changes as retirement approaches.

**Volatility/Market risk** – The risk that adverse movements in investment market values in the period prior to retirement lead to a reduction in the anticipated level of benefits.

For members approaching retirement, the Default Option invests in a greater allocation of funds which are expected to be subject to lower levels of volatility.

### Other investment risks

Other potentially material investment risks which may impact members' fund values include:

**Counterparty risk** – The risk that counterparties holding derivative-based assets may default, leading to a reduction in a fund's value.

The Trustee, in conjunction with their investment managers, manages counterparty risk by investing in pooled funds that offer suitable counterparty protection.

**Active management risk** – The risk that an investment manager will not deliver investment returns in line with investment markets generally or other investment managers.

The Trustee recognises that an actively managed fund may not deliver performance in line with the fund's objectives/agreed benchmarks. The Trustee regularly monitors fund performance in order to monitor this risk.

**Liquidity risk** – The risk that funds which invest in more illiquid assets will not be able to accept investments or disinvestments requested by the Trustee and/or members.

The Trustee is satisfied that the pooled funds in which they invest have sufficient liquidity and may be realised quickly if required.

### **Managing investment risks**

The Trustee believes that taking investment risk is usually rewarded in the long term, while asset allocation (i.e. the choice between asset classes, such as equities and bonds) is the key tool for managing the balance between risk and return.

To help mitigate the principal investment risks, the Trustee offers the Default Option, which automatically switches members' investments from higher risk investments to lower risk investments as they approach retirement.

The Trustee believes that the investment options available are appropriate for managing these risks.

### **2.6 Expected return on investments**

The expected returns on the principal asset classes and fund types within the DC Section are:

**Equities** – should achieve a strong positive return relative to inflation over the longer term, but tends to be the most volatile asset class over the shorter term.

**Corporate Bonds** – should achieve a positive return relative to inflation over the longer term, which is lower than that for equities, but with a lower level of shorter term volatility than equities.

**Cash** – should deliver a positive return which may not always keep pace with inflation, while normally providing a minimal level of volatility and high degree of capital security.

**Long-dated Government Bonds (Gilts)** – values should move broadly in line with the financial factors influencing annuity rates.

**Diversified Growth/multi-asset funds** – invest in a varying mix of asset classes with an objective of delivering a target level of returns relative to inflation over the longer term, with a target level of shorter-term volatility lower than equities.

### **2.7 Realisation of investments**

Funds need to be sold to make payments of benefits and to undertake fund switches either in accordance with the asset allocation changes as prescribed by the Default Option or as requested by individual members. The Trustee normally expects the investment managers to be able to realise the funds within a reasonable timescale. The Trustee recognises that the investment managers may at times need to impose restrictions on the timing of purchases and sales of funds (most notably investing in property) in some market conditions to protect the interests of all investors in a fund.



### 3 Stewardship

#### 3.1 Members' financial interests

The Trustee has requested that the investment managers have the financial interests of the members as their first priority when choosing investments.

#### 3.2 Social, environmental and ethical issues

The Trustee believes that social, environmental and ethical issues are among the factors which active investment managers should take into account, where relevant, when selecting investments. The Trustee expects that the extent to which these considerations may have a fundamental impact on the funds will be taken into account by the investment managers as part of their delegated duties.

The Trustee offers, on a self-select basis, two ethical investment options with differing risk levels for those members who wish to reflect ethical considerations in the investment of their contributions.

#### 3.3 Exercise of voting rights

The Trustee's policy is to delegate responsibility for the exercising of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value.

### 4 Review

This Statement of Investment Principles was completed in August 2017. It will be next reviewed no later than August 2020.

**Signed on behalf of the Trustee Directors of Nestlé UK Pension Trustee Limited as Trustee of the Nestlé UK Pension Fund:**

Name	Signature	Date
JD Chillman		6/9/17

Name	Signature	Date
SJ Robinson		6/9/17

## Investment Implementation Document

### For the DC Section of the Nestlé UK Pension Fund

## 1 Introduction

### 1.1 Background

This document (the 'Investment Implementation Document or IID') has been prepared by Nestlé UK Pension Trust Limited, as Trustee of the Nestlé UK Pension Fund (the 'Fund'). It is intended to supplement the Fund's DC Statement of Investment Principles (the 'DC Statement'). As such, both documents should be read in conjunction, with the DC Statement capturing the broad principles of investment strategy and investment decision making (and thereby fulfilling the statutory requirements in terms of disclosure), with the IID providing more detail on the specific investments held and the various policies and procedures that have been agreed and put in place by the Trustee.

The IID is maintained by Hymans Robertson and the Trustee. In line with the DC Statement, it is intended that the IID should be reviewed at least every three years and without delay after any significant change in investment policy or demographic profile of the Fund's membership. However, by its nature, the investment arrangements reflected in this document are expected to evolve as the Fund's circumstances and market conditions change. As a result, this should be considered to be a working document and the Trustee anticipates making more frequent changes to it, periodically, over and above the DC Statement (which is principles based in nature).

The IID covers the broad areas as follows which relate to the defined contribution section (DC Section) of the Fund.

- Section 2 - Membership profile
- [Section 3 - Investment options](#)
- [Section 4 - Governance](#)
- [Section 5 - Monitoring](#)
- [Section 6 - Fees and charges](#)
- [Appendix](#)

## 2 Membership profile

### 2.1 Member attitude to risk

In designing a suitable investment strategy, the Trustee recognises that:

- Members have differing investment needs and that these needs change during the course of their working lives; and
- Attitudes to investment risks, and the need for investment returns, will vary from member to member and will also vary for each member over time, in particular as they approach retirement.

As a result, the Trustee believes that a range of investment options should be offered to members.

The Trustee believes it is in the best interests of members to offer a Default Option which manages the principal investment risks members face during their membership of the Fund. The Default Option is a lifestyle strategy which the Trustee believes is broadly appropriate to meet the needs of a majority of the membership.

## 2.2 Member benefit choices at retirement

Following the pensions Freedom and Choice introduced in April 2015, members have a choice at retirement of:

- Taking cash at retirement;
- Taking Uncrystallised Funds Pension Lump Sums ('UFPLS') for several years into retirement;
- Using Flexible Access Income Drawdown ('FAD') during their retirement; or
- Buying an annuity at retirement or several years into their retirement.

At present, the Fund accommodates 100% cash withdrawal at retirement. The Trustee does not offer income drawdown facilities within the Fund – members would need to transfer their funds to other arrangements to do this.

The Trustee believes that members' choice of benefits at retirement will be strongly influenced by:

- The size of their DC pot in the Fund;
- The size of their deferred benefits from previous occupational pension schemes (especially defined benefit arrangement if applicable) and workplace group personal pension plans.
- Other sources of income including non-pension savings and partners' pension provision.

In practice, the Trustee can only reliably take the likely size of members' DC pots in the Fund into account. The Trustee believes that a typical member, without significant sources of income outside the Fund, could be expected to act mostly as follows:

**Small pots** – would be taken as cash or UFPLS over a few years in retirement.

**Medium sized pots** – would be taken as UFPLS over several years in retirement.

**Larger pots** – would be taken as cash at retirement and income drawdown during retirement (although some may use part of their DC pot to buy an annuity at, or some years into, retirement).

The Trustee believes that it is in the best interests of members to have a Default Option that targets the method by which the majority of members are expected to take retirement benefits.

## 3 Investment options

### 3.1 Overall objectives

The Trustee's overall objective is to invest contributions in the best interests of members and their beneficiaries.

The Trustee Directors believe that understanding the demographics and likely attitudes to risk/reward of the members are essential to developing and maintaining an appropriate investment strategy. It is also believed that members typically seek to optimise the value of their retirement benefits from a given level of contributions, while aiming to protect the value of those benefits in the years approaching retirement against market falls and fluctuations in the costs of turning fund values into retirement benefits/income streams.

### 3.2 Default Option

#### *Rationale for Default Option available from August 2017*

The rationale for having a default fund is detailed on the previous pages. The key drivers for this change are:

- Following the introduction of pensions Freedom and Choice, members now have more flexibility in how they use their DC funds.
- It is believed that the Default investment strategy should evolve to ensure that the strategy is consistent with the way in which members might now use their fund at retirement.
- Based on membership analysis and broader market experience, it is unlikely that the majority of members retiring over the next 5-10 years will use their fund to buy an annuity.
- There has been a significant rise in the number and type of investment products and funds that are available in the DC market over the past 3 years.

In choosing what is felt to be an appropriate default, the Trustee has taken into account a number of factors including: members' projected pot sizes at retirement, contribution levels, the level of replacement income that members are likely to require and the likely return on investment after the deduction of charges payable on the funds used by the default option. This analysis (which was carried out in 2016) showed that:

- The majority of members retiring in the next few years are expected to have relatively small DC pots at retirement.
- The majority of members retiring further into the future are expected to have more significant DC pots at retirement.

Based on this analysis, the Trustee believes that most members will want to take their retirement benefits as cash at retirement and/or UFPLS for a few years into retirement and the Default Option has been designed with this in mind.

#### *Objectives of the Default Option*

The main objective of the Default Option is to provide good member outcomes at retirement while subject to a level of investment risk which is appropriate to the majority of members who do not make active investment choices.

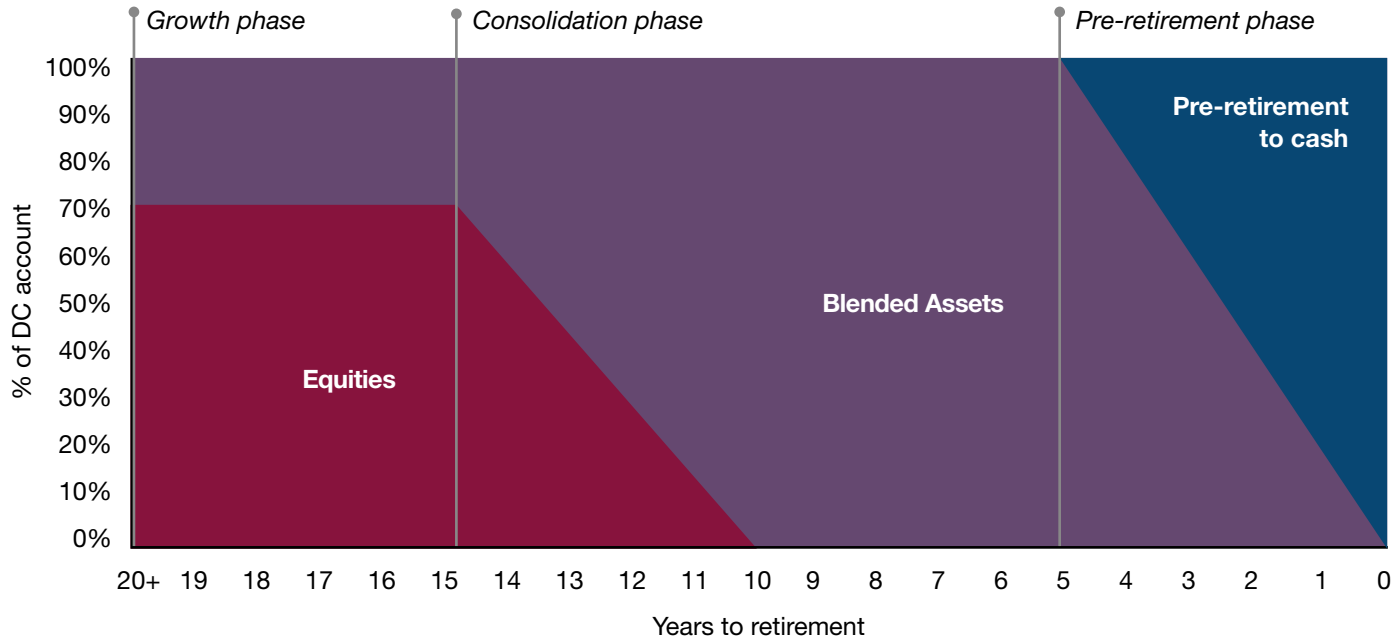
The Trustee believes that a lifestyle strategy is an appropriate default option.

The principal objectives of the Default Option are:

- To manage the principal investment risks faced by an average member during their membership of the Fund;
- To target the majority of members who are expected to take cash at retirement and/or UFPLS for a few years into retirement;
- To invest in funds which are expected over the long term to deliver strong returns relative to inflation for members up to 20 years from retirement.
- To progressively invest in funds which are expected over the long term to deliver good returns relative to inflation, while seeking to control the level of volatility in fund values (compared to equities), for members 10 to 20 years from retirement whose accumulated funds are expected by then to have grown to a size where the value at risk is material.
- During the last 10 years before retirement, to increasingly invest in lower risk funds (and cash) which are expected to help mitigate fluctuations in the sizes of both members' fund values and the benefits members are likely to take at retirement.

The Default Option consists of one pathway fund, containing three phases within the 'lifecycle' of pension savings which is shown on the next page.

The Default Option consists of one pathway fund, containing three phases within the 'lifecycle' of pension savings.



Note that during the growth phase, the Equity Fund and Blended Assets Fund have been combined to form the Growth Fund to prevent unnecessary mechanistic rebalancing.

## Funds used in the Default Option

Asset Class	Fund manager	Fund name	Objective	Benchmark
Multi-Asset	State Street Global Advisors (SSGA), Schroders, Invesco	Growth Fund*	This fund aims to provide stable long term returns. The fund will invest in a broad range of assets including, but not limited to: equities, bonds, property, hedge funds and cash.	70% MSCI All Country World Index 15.0% CPI+4% p.a. 15.0% 3-month Sterling LIBOR +5%p.a.
Equity	State Street Global Advisors (SSGA)	Equity Fund*	The Fund seeks to provide an investment return in excess of the performance of the benchmark over the long term.	MSCI AC World Index
Multi-Asset	Schroders, Invesco	Blended Assets Fund*	This fund aims to provide more stable (but slightly lower) long term returns than equities. The fund will invest in a broad range of assets including, but not limited to: equities, bonds, property, hedge funds and cash. The fund is actively managed by investment managers who make asset allocation decisions in order to deliver the targeted investment return.	50.0% CPI + 4% p.a. 50.0% 3-month sterling LIBOR +5% p.a.
Multi-Asset	Kames, Legal & General	Pre-Retirement to Cash Fund*	The aim of this fund is to provide exposure to a range of assets that have relatively low volatility and are expected to deliver returns in line with, or a small amount above, inflation. The fund is actively managed by investment managers who makes asset allocation decisions in order to manage the level of volatility.	50.0% 3-month GBP LIBOR + 2.5% p.a. 50.0% 7-day LIBID

\*These are blended funds. Underlying funds and allocations are shown on [page 29](#).

### 3.3 Self-select fund range

In addition to the Default Option, the Trustee believes that the following investment options are appropriate to achieve the overall objectives of the Fund:

#### Self-select funds

The self-select fund range is provided for members who want to take an active part in choosing where their DC pot is invested and complements the Default Option. The self-select fund range covers a spectrum of investment risk levels and investment approaches, so that members can tailor the investment of their DC pot more closely to their personal needs and attitude to risk, although it cannot be expected to cover all the investment needs of all members.

Members are offered a choice of self-select investment funds across a range of asset classes and investment styles:

Asset Class	Fund manager	Fund name	Objective	Benchmark
Equity	State Street Global Advisors (SSgA)	Equity Fund*	The Fund seeks to provide an investment return in excess of the performance of the benchmark over the long term.	MSCI AC World Index
Multi-Asset	Schroders, Invesco	Blended Assets Fund*	This fund aims to provide more stable (but slightly lower) long term returns than equities. The fund will invest in a broad range of assets including, but not limited to: equities, bonds, property, hedge funds and cash. The fund is actively managed by investment managers who make asset allocation decisions in order to deliver the targeted investment return.	50.0% CPI + 4% p.a. 50.0% 3-month sterling LIBOR +5% p.a.
Multi-Asset	Kames, Legal & General	Pre-Retirement to Cash Fund*	The aim of this fund is to provide exposure to a range of assets that have relatively low volatility and are expected to deliver returns in line with, or a small amount above, inflation. The fund is actively managed by investment managers who make asset allocation decisions in order to manage the level of volatility.	50.0% 3-month GBP LIBOR + 2.5% p.a. 50.0% 7-day LIBID
Property	Legal & General	Hybrid Property Fund	This fund aims to provide a diversified exposure to the UK and global property market.	70% AREF/IPD UK Quarterly All Balanced Property Fund Index 30% FTSE EPRA/NAREIT Global Developed Real Estate Index

\*These are blended funds. Underlying funds and allocations are shown on [page 29](#).

table continued

Asset Class	Fund manager	Fund name	Objective	Benchmark
Corporate Bonds	Fidelity	UK Corporate Bond Fund	This fund aims to provide both income and growth based on investment in non-government bonds. It has the freedom to invest in overseas bonds and UK bonds, although investments will be made primarily in UK corporate bonds.	Bank of America Merrill Lynch Euro-Sterling Index
Multi-Asset	Legal & General	Ethical Growth*	This portfolio offers investment in a mix of equities and UK government bonds. All funds in this portfolio are ethically screened to ensure that they have a focus on integrating sustainability issues. The expected level of risk is expected to be between that of equities and bonds. This is a passive fund which aims to invest 70% in equities and 30% in UK government bonds.	70% FTSE4Good Global Equity Index 15% FTSE A All Stocks Gilts Index 15% FTSE A All Stocks Index-Linked Gilts Index
Multi-Asset	Legal & General, BlackRock	Ethical Consolidation*	This portfolio offers investment in a mix of equities and UK government bonds. All funds in this portfolio are ethically screened to ensure that they have a focus on integrating sustainability issues. The expected level of risk is expected to be similar to bonds. This is a passive fund which aims to invest 15% in equities and 85% in UK government bonds.	15% FTSE4Good Global Equity Index 17.5% FTSE A All Stocks Gilts Index 17.5% FTSE A All Stocks Index-Linked Gilts Index 50% FTSE A Up to 5 Years Gilts Index

\*These are blended funds. Underlying funds and allocations are shown on [page 29](#).



table continued

Asset Class	Fund manager	Fund name	Objective	Benchmark
Annuity Purchase	Legal & General	Pre-Retirement Fund	The fund aims to provide diversified exposure to sterling assets that reflect the broad characteristics of investments underlying the pricing of a typical non-inflation linked annuity product.	90% Non-Gilts (ex-BBB) over 15 years 10% UK Gilts over 15 years
Cash	Legal & General	Cash Fund	This fund invests in cash and other money market instruments that are similar to cash with very low volatility.	100% 7-Day LIBID Index

\*These are blended funds. Underlying funds and allocations are shown on [page 29](#).

Members cannot invest concurrently in self-select funds and in the Default Option.

## 4 Governance

### 4.1 Trustee's powers

The Trustee will always act in the best interests of the members and will assess the suitability of different types of investments to meet the needs of members.

### 4.2 Responsibilities

The key responsibilities in connection with the governance of the Fund are:

- The Employer is responsible for paying the contributions and for providing support to the Trustees to help govern the Fund.
- The Trustee is responsible for the appointment, monitoring and dismissal of the investment managers. Having taken advice from the Fund's Investment Consultant, the Trustee is satisfied that the appointed investment managers have sufficient experience and expertise to carry out their role.
- The Trustee does not give advice to individual members on their fund selections. Members are encouraged to take independent financial advice when making their individual investment choices.
- The Employer's pension administration team is responsible for passing contributions to the investment managers and ensuring that members are allocated the correct number of units in the funds. It is also responsible for operating the lifestyle strategy and general administration, including record-keeping, providing members with annual benefit statements and paying benefits when they become due.
- The Custodians are appointed by the investment managers and are responsible for the safekeeping of the assets of the funds and processing the settlement of transactions.
- The role of the Investment Consultant is to give advice to the Trustee on the development of a clear investment strategy for the Fund including the default option and self-select fund range. It provides general advice in respect of the Fund's investment activities. It advises on the construction of an overall investment management structure and fund offering that meets the objectives of the Trustee. It also provides views on the investment managers used by the Fund and assists the Trustee in the selection and appointment of appropriate investment managers when necessary.

- Members are expected to be responsible for choosing the investment options in which contributions are invested, consistent with their tolerance of risk and likely benefits at retirement (and their level of understanding and ability to take investment decisions).

The responsibilities are described in greater detail in [Appendix 1](#), on [pages 30 and 31](#).

### 4.3 Communication

The Trustee communicates regularly with all stakeholders to ensure that they are aware of the Trustee's responsibilities in relation to investment. This includes the following:

- Consulting the Principal Employer on the content of this IID;
- Providing communications to members;
- Producing the Annual Report and Accounts which includes the Chair's statement;
- Completing an annual return to the Pensions Regulator;
- Meeting regularly with the Investment Consultant, the investment managers and the administrator;
- Providing a range of literature to assist members in making their investment decisions. In addition, members should be provided access to factsheets for each fund showing the latest asset allocation and past performance.

### 4.4 Service Providers

Details of the current service providers and investment managers to the Fund are set out in [Appendix 2](#) to this document.

### 4.5 Fees

Details of the current fees for the Fund's service providers and funds are set out in [Section 6](#).

## **5 Monitoring**

### **5.1 Investment Performance**

The Trustee regularly reviews the performance of each fund in which the Fund invests against its stated performance objective. The Trustee receives an independent investment performance monitoring report on a quarterly basis.

### **5.2 Default Option**

The Trustee monitors the suitability of the objectives for the Default Option and the performance (after the deduction of charges) of the Default Option against these objectives at least every three years and without delay after any significant change in: (i) investment policy; or (ii) the demographic profile of the membership.

### **5.3 Charges**

The charges for the investment options borne by members (expressed in terms of each fund's 'Total Expense Ratio') are monitored by the Trustee annually to ensure that they represent 'value for money' relative to the needs of the membership.

The Trustee monitors the compliance of the Default Option with the charge cap introduced by the Pensions Act 2014, which applies from April 2015.

### **5.4 Transaction costs**

The Trustee intends to monitor the Funds' transaction costs to ensure that they are reasonable and represent value for money to members.

### **5.5 Chair's statement**

The Chair's statement included in the Annual Report and Accounts confirms the results of the monitoring during the preceding year.

## 6 Fees and Charges

### 6.1 Investment Consultant

The Fund's Investment Consultant is predominately paid for on a fixed fee basis, with work outside of the fixed fee subject to agreement in advance before commencement. The Trustee believes that this approach ensures that all advice is impartial and independent.

### 6.2 Investment Management

The investment managers apply the following charges for investing in the funds selected by the Trustee. The Total Expense Ratio ('TER'), also known as the Total Charge, is the sum of a fund's Annual Management Charge ('AMC') and any additional expenses (reflecting all the other operating costs and expenses of running the fund). The TER excludes transaction costs on the fund's underlying assets.

#### Default Option

Fund	Total Expense Ratio (TER) p.a.
Growth Fund	0.33%
Equity Fund	0.20%
Blended Assets Fund	0.65%
Pre-retirement to Cash Fund	0.31%

The Trustee monitors the total charges of the funds used in the default option at quarterly reference points. The total charges borne by members in the default option over a rolling 12-month period comply with the charge cap.

## Self-select fund range

Asset Class / Fund Type	Fund	Total Expense Ratio (TER)
Global Equity	86% SSGA Global Multi-Factor Strategy 14% SSGA Emerging Market Equity Index Fund	0.20%
Blended Assets Fund	50% Schroders Diversified Multi Asset Fund 50% Invesco Global Targeted Returns Fund	0.65%
Pre-retirement to Cash	50% Kames Absolute Return Bond Fund 50% Legal & General Cash Fund	0.31%
Cash	Legal & General Cash Fund	0.18%
Property	Legal & General 70:30 Hybrid Property Fund	0.50%
Corporate Bonds	Fidelity UK Corporate Bond Fund	0.43%
Ethical Growth	70% L&G Ethical Global Equity Index 15% L&G All Stocks Gilts Index Fund 15% L&G All Stocks Index-Linked Gilts Index Fund	0.24%
Ethical Consolidation	15% L&G Ethical Global Equity Index 17.5% L&G All Stocks Gilts Index Fund 17.5% L&G All Stocks Index-Linked Gilts Index Fund 50% BlackRock Up to 5 Years Gilts Index	0.16%
Pre-retirement to Annuity	Legal & General Pre-Retirement Fund	0.17%

The charges for the investment options are borne by the members (through a deduction in their unit price).

Note that the TER can vary slightly due to the different performance of the underlying funds and the expenses incurred by them. The TER's on [pages 28 and 29](#) are accurate as at August 2017.

### 6.3 Administration

The administration costs are borne by the Employer.

## Appendix 1 – responsibilities

### Trustee

The Trustee has set up a DC Committee (DCC) that meets on a quarterly basis to ensure that enough time is spent running the Fund properly and with the appropriate level of governance.

The Trustee's primary investment responsibilities in relation to the Fund include:

- Operating the Fund in accordance with its Trust Deed and Rules.
- Ensuring that the investment options are suitable for the Fund's membership profile.
- Preparation of the DC Statement and reviewing the content of the DC Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the Investment Consultant. The DCC has the responsibility of maintaining this document (the IID).
- Appointing the Investment Consultant and other advisors as necessary for the good stewardship of the Fund.
- Appointing the investment managers who invest the Fund's assets.
- Assessing the performance, charges and processes of the investment managers by means of regular, but not less than annual, reviews of investment performance and other information, with the Investment Consultant.
- Monitoring compliance of the investment arrangements with the DC Statement on a regular basis.
- Preparing an annual Chair's statement for inclusion in the Annual Report and Accounts.

### Investment Consultant

The Investment Consultant's main responsibilities include:

- Assisting the Trustee in the preparation and annual review of the DC Statement in consultation with the Principal Employer.
- Providing the Trustee with quarterly reports including commentary on any changes to funds' investment approach and a review of the investment performance.
- Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee.
- Advising the Trustee on the selection and review of performance of the Fund's investment managers.
- Providing training or education on any investment related matter as and when the Trustee sees fit.

### Investment managers

All day-to-day investment management decisions have been delegated to the investment managers authorised under the Financial Services and Markets Act 2000.

The investment managers' main responsibilities include:

- Ensuring that investment of the Fund's assets are in compliance with prevailing legislation and within the constraints detailed in the DC Statement.
- Investing in the funds selected by the Trustee.
- Attending meetings with the Trustee as and when required.
- Informing the Trustee of any changes in the internal performance objective and guidelines of any pooled fund used by the Fund as and when they occur.
- Exercising voting rights on shareholdings in accordance with their general policy.
- Following its general policy on socially responsible investment.

### Custodian

The custody arrangements are those operated by the investment managers for all clients investing in their funds. The custodians are responsible for ensuring the security of the funds' underlying assets and recording sales and purchases of the funds' underlying assets.

### **Administration**

The administrator's main investment related responsibilities include:

- The prompt investment and reconciliation of contributions.
- Undertaking switches between funds as required.
- Operating the Default Option.
- Maintaining records of the members' investments.
- Realising investments to pay benefits.

### **Appendix 2 – service providers**

The Trustee has appointed the following service providers:

#### **Investment Consultant**

The Investment Consultant (for the DC Section) is Hymans Robertson LLP.

#### **Platform provider**

The investment platform through which the investment options are operated is provided by Fidelity.

#### **Custodians**

The Funds' custodians are appointed by the investment managers.

#### **Administration**

The administration of the Fund is carried out internally by Nestlé.

## Schedule 2

### Table of funds and charges

#### 2a Default arrangement

The funds' charges (as 'Total Expense Ratios') and transaction costs in the last year used in the default arrangement were:

Fund	ISIN*	Charges**		Underlying Fund***	ISIN*	Transaction costs		
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested	Period covered by transaction costs
Equities	GB00BDT7X699	0.20%	£2.00	State Street Global Multi-Factor Strategy	GB00BDH3QG06	-0.02%	-£0.20	01/01/2017-31/12/2018
				State Street Emerging Markets Equity Index Fund	GB00BF0YV144			
Blended Assets	GB00BDT7X814	0.65%	£6.50	Schroder Diversified Multi-Asset Fund	GB00B433JR39	0.44%	£4.40	01/01/2017-31/12/2018
				Invesco Global Targeted Returns Fund	GB00B8CHD050			
Pre-retirement to cash	GB00BDT7XC51	0.31%	£3.10	Kames Absolute Return Bond Global Fund†	IE00BVVQ0700	0.06%	£0.60	01/01/2017-30/09/2018
				L&G Cash Fund	GB00B6V6T565			

Source: Fidelity

\*ISIN: The International Securities Identification Number unique to each fund. Note, Equitable Life does not use ISIN codes, so the funds Citicodes are shown instead.

\*\*Charges: The funds' Total Expense Ratio ('TER'), which includes the funds' Annual Management Charge ('AMC') and Operating Costs and Expenses.

\*\*\*Underlying Fund: The fund in which the Fund's top-level fund invests.

†This fund was sold in January 2019 into L&G Cash Fund.



## 2b Self-select funds outside the default arrangement

The funds' charges (as 'Total Expense Ratios') and transaction costs in the last year for the self-select funds were:

Fund	ISIN*	Charges**		Underlying Fund***	ISIN*	Transaction costs		
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested	Period covered by transaction costs
Equities	GB00BDT7X699	0.20%	£2.00	State Street Global Multi-Factor Strategy	GB00BDH3QG06	-0.02%	-£0.20	01/01/2017-31/12/2018
				State Street Emerging Markets Equity Index Fund	GB00BF0YV144			
Blended Assets	GB00BDT7X814	0.65%	£6.50	Schroder Diversified Multi-Asset Fund	GB00B433JR39	0.44%	£4.40	01/07/2017-31/12/2018
				Invesco Global Targeted Returns Fund	GB00B8CHD050			
Pre-retirement to cash	GB00BDT7XC51	0.31%	£3.10	Kames Absolute Return Bond Global Fund†	IE00BVVQ0700	0.06%	£0.60	01/01/2017-31/12/2018
				L&G Cash Fund	GB00B6V6T565			
Corporate Bonds	GB00BDT7X921	0.43%	£4.30	Fidelity Institutional UK Corporate Bond Fund	GB0033146563	-0.02%	-£0.20	01/01/2017-31/12/2018

Source: Fidelity

\*ISIN: The International Securities Identification Number unique to each fund. Note, Equitable Life does not use ISIN codes, so the funds Citicodes are shown instead.

\*\*Charges: The funds' Total Expense Ratio ('TER'), which includes the funds' Annual Management Charge ('AMC') and Operating Costs and Expenses.

\*\*\*Underlying Fund: The fund in which the Fund's top-level fund invests.

†This fund was sold in January 2019 into L&G Cash Fund.

table continued

Fund	ISIN*	Charges**		Underlying Fund***	ISIN*	Transaction costs		
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested	Period covered by transaction costs
Ethical Consolidation	GB00BDT7XG99	0.17%	£1.70	BlackRock Connect Up to 5 Years UK Gilt Index Fund	GB00BRYFX886	0.02%	£0.20	01/01/2017-31/12/2018
				L&G All Stocks Index Linked Gilts Index Fund	GB00B8ZHMJ47			
				L&G All Stocks Gilts Index Fund	GB00B8ZJTR71			
				L&G Ethical Global Equity Fund	GB00B6V6WH96			
Ethical Growth	GB00BDT7XF82	0.24%	£2.40	L&G Ethical Global Equity Fund	GB00B6V6WH96	0.02%	£0.20	01/01/2017-31/12/2018
				L&G All Stocks Gilts Index Fund	GB00B8ZJTR71			
				L&G All Stocks Index Linked Gilts Index Fund	GB00B8ZHMJ47			
Pre-retirement to annuity	GB00BDT7XB45	0.17%	£1.70	L&G Pre-Retirement Fund	GB00B6V70Q77	0.02%	£0.20	01/01/2017-31/12/2018
Cash	GB00BDT7XD68	0.18%	£1.80	L&G Cash Fund	GB00B6V6T565	0.00%	£0.00	01/01/2017-31/12/2018
Property	GB00BDT7X707	0.50%	£5.00	L&G 70:30 Hybrid Property Fund	GB00B6V2TD24	0.05%	£0.50	01/01/2017-31/12/2018

Source: Fidelity

\*ISIN: The International Securities Identification Number unique to each fund. Note, Equitable Life does not use ISIN codes, so the funds Citicodes are shown instead.

\*\*Charges: The funds' Total Expense Ratio ('TER'), which includes the funds' Annual Management Charge ('AMC') and Operating Costs and Expenses.

\*\*\*Underlying Fund: The fund in which the Fund's top-level fund invests.

## 2c Additional Voluntary Contributions for members

The funds' charges (as 'Total Expense Ratios') and transaction costs in the last year for the AVC funds are set out in the table below.

The transaction costs cover different periods over the Fund year as investment managers are only required to report once per year. Therefore, there are discrepancies in the reporting periods between each of the AVC providers.

Fund	ISIN*	Charges**		Transaction costs		
		% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested	Period covered by transaction costs
Clerical Medical Balanced Pension	GB0002039955	0.495%	£4.95	0.16%	£1.60	01/10/2017-30/09/2018
CM Cash Pension Fund	GB0002040738			0%	£0.00	01/07/2017-30/06/2018
Clerical Medical International Growth Pension	GB0002040953			0.27%	£2.70	01/10/2017-30/09/2018
Clerical Medical Cautious Pension	GB0002024197			0.16%	£1.60	01/10/2017-30/09/2018
Clerical Medical Non-Equity Pension	GB0008525916			0.08%	£0.80	01/10/2017-30/09/2018
Clerical Medical UK Growth Pension	GB0002042116			0.29%	£2.90	01/08/2017-31/07/2018
Standard Life International Equity Pension Fund	GB0031729394	1.03%	£10.30	0.0541%	£0.54	01/01/2018-31/12/2018
Standard Life Money Market Pension Fund	GB0031728875	1.01%	£10.10	0.000%	£0.00	01/01/2018-31/12/2018
Standard Life FTSE Tracker Pension Fund	GB0031728545	1.01%	£10.10	0.000%	£0.00	01/01/2018-31/12/2018

Source: Equitable Life, Clerical Medical, Standard Life

\*ISIN: The International Securities Identification Number unique to each fund. Note, Equitable Life does not use ISIN codes, so the funds Citicodes are shown instead.

\*\*Charges: The funds' Total Expense Ratio ('TER'), which includes the funds' Annual Management Charge ('AMC') and Operating Costs and Expenses.

table continued

Fund	ISIN*	Charges**		Transaction costs		
		% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested	Period covered by transaction costs
Standard Life Deposit and Treasury Pension Fund	GB00B64ZNL48	1.01%	£10.10	-0.0001%	£0.00	01/01/2018-31/12/2018
Standard Life Pension With Profits One Fund	n/a	n/a	n/a	0.1248%	£1.25	01/01/2018-31/12/2018
Standard Life Property Pension Fund	GB0031728214	1.03%	£10.30	0.1652%	£1.65	01/01/2018-31/12/2018
Standard Life Managed Pension Fund	GB0031729063	1.02%	£10.20	0.0420%	£0.42	01/01/2018-31/12/2018
Standard Life Ethical Pension Fund	GB0030922081	1.01%	£10.10	0.1052%	£1.05	01/01/2018-31/12/2018
Standard Life North American Equity Pension Fund	GB0031728107	1.01%	£10.10	0.0441%	£0.44	01/01/2018-31/12/2018
Standard Life European Equity Pension Fund	GB0031727919	1.02%	£10.20	0.0541%	£0.54	01/01/2018-31/12/2018
Standard Life Asia Pacific ex Japan Equity Pension	GB0031728438	1.14%	£11.40	0.0565%	£0.57	01/01/2018-31/12/2018
Standard Life Far East Equity Pension Fund	GB0031729519	1.09%	£10.90	0.0580%	£0.58	01/01/2018-31/12/2018
Standard life Japanese Equity Pension Fund	GB0031728099	1.03%	£10.30	The Trustee has been unable to obtain transaction costs for some of the Standard Life AVC funds. See 'Missing information' on <a href="#">page 10</a> .		
Pension With Profits One 2006 Fund	n/a	n/a	n/a			

Source: Equitable Life, Clerical Medical, Standard Life

\*ISIN: The International Securities Identification Number unique to each fund. Note, Equitable Life does not use ISIN codes, so the funds Citicodes are shown instead.

\*\*Charges: The funds' Total Expense Ratio ('TER'), which includes the funds' Annual Management Charge ('AMC') and Operating Costs and Expenses.

table continued

Fund	ISIN*	Charges**		Transaction costs		
		% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested	Period covered by transaction costs
SL Fidelity Asia Pension Fund	GB0031731705	2.19%	£21.90	The Trustee has been unable to obtain transaction costs for some of the Standard Life AVC funds. See 'Missing information' on <a href="#">page 10</a> .		
SL Janus Henderson European Selected Opps Pn	GB0031731259	1.94%	£19.40			
Standard Life Stock Exchange Pension Fund	GB0031729170	1.03%	£10.30			
Standard Life UK Equity Pension Fund	GB0031729287	1.01%	£10.10			
SL Threadneedle American Select Pension Fund	GB0031731580	1.88%	£18.80			
Standard Life Annuity Targeting Pension Fund	GB00BFCNLC09	1.01%	£10.10			
Standard Life Mixed Bond Pension Fund	GB0031729402	1.01%	£10.10			
Standard Life Multi Asset Mgd (20-60% Shares) Pn	GB0031728982	1.02%	£10.20			
SL Vanguard FTSE UK All Share Index Pension Fund	GB00B61HL424	1.02%	£10.20			
Standard Life UK Equity Select Pension Fund	GB00B51JQP79	1.41%	£14.10			
Standard Life Index Linked Bond Pension Fund	GB0031727794	1.01%	£10.10			

Source: Equitable Life, Clerical Medical, Standard Life

\*ISIN: The International Securities Identification Number unique to each fund. Note, Equitable Life does not use ISIN codes, so the funds Citicodes are shown instead.

\*\*Charge: The funds' Total Expense Ratio ('TER'), which includes the funds' Annual Management Charge ('AMC') and Operating Costs and Expenses.

table continued

Fund	ISIN*	Charges**		Transaction costs		
		% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested	Period covered by transaction costs
Standard Life Global Equity 50:50 Pension Fund	GB00B5403456	1.01%	£10.10	The Trustee has been unable to obtain transaction costs for some of the Standard Life AVC funds. See 'Missing information' on <a href="#">page 10</a> .		
Standard Life Overseas Tracker Pension Fund	GB00B544RT09	1.01%	£10.10			
SL SLI UK Equity High Income Pension Fund	GB00B3K62Q81	1.39%	£13.90			
Equitable Life With Profits Fund	n/a	1.5%	£15.00	0.0234%	£0.24	30/09/2017-30/09/2018
Equitable Life Managed Fund	EU23	0.75%	£7.50	0.0227%	£0.23	30/09/2017-30/09/2018
Equitable Life Pelican Fund	EU26	0.75%	£7.50	0.0087%	£0.09	30/09/2017-30/09/2018
Equitable Life All Share Tracker Fund	EU96	0.5%	£5.00	0.0159%	£0.16	30/09/2017-30/09/2018
Equitable Life International Growth	EU31	0.75%	£7.50	0.0006%	£0.01	30/09/2017-30/09/2018

Source: Equitable Life, Clerical Medical, Standard Life

\*ISIN: The International Securities Identification Number unique to each fund. Note, Equitable Life does not use ISIN codes, so the funds Citicodes are shown instead.

\*\*Charges: The funds' Total Expense Ratio ('TER'), which includes the funds' Annual Management Charge ('AMC') and Operating Costs and Expenses.

## Schedule 3

### Tables illustrating the impact of charges and costs

The following tables show the potential impact of the costs and charges borne by an average member; based on projected values, in today's money, at several times up to retirement using a selection of funds and a range of contribution levels. The member joined the Fund 32 years before their target retirement date. At 30 years before retirement, the member has been invested for 2 years and the estimated pot size is shown before and after charges and costs. At 1 year before retirement, the member has been invested in the Fund for 31 years and the estimated pot size is shown before and after charges and costs.

#### 3a For the default arrangement

**For an average member in the default arrangement,  
paying 4% employee contributions and 5% employer contributions**

Years to retirement	Before costs and charges	After costs and charges are taken
1	£106,152	£98,484
3	£101,953	£94,970
5	£95,710	£89,769
10	£79,249	£75,871
15	£61,188	£59,388
20	£43,035	£42,106
25	£26,277	£25,922
30	£10,830	£10,778
32	£5,000	£5,000

Source: Hymans Robertson using Fidelity costs and charges

**For an average member in the default arrangement,  
paying 8% employee contributions and 12% employer contributions**

Years to retirement	Before costs and charges	After costs and charges are taken
1	£229,308	£213,078
3	£219,760	£205,021
5	£205,807	£193,318
10	£169,106	£162,124
15	£139,073	£125,445
20	£88,974	£87,166
25	£51,969	£51,325
30	£17,868	£17,793
32	£5,000	£5,000

Source: Hymans Robertson using Fidelity costs and charges

### 3b For a selection of the self-select funds

For an average member, paying 4% employee contributions and 5% employer contributions

Years to retirement	Property Fund		Cash Fund		Global Equity Fund		Blended Assets Fund	
	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	£99,668	£92,658	£63,454	£62,055	£129,368	£125,331	£101,907	£87,024
3	£93,034	£86,842	£60,590	£59,311	£118,903	£115,418	£95,005	£81,837
5	£86,235	£78,177	£57,651	£56,491	£108,822	£105,840	£88,201	£76,649
10	£70,442	£66,722	£49,919	£49,049	£85,230	£83,300	£71,609	£63,655
15	£54,867	£52,539	£41,508	£40,909	£63,797	£62,658	£55,590	£50,591
20	£39,727	£38,473	£32,230	£31,875	£44,363	£43,786	£40,112	£37,409
25	£24,994	£24,493	£21,864	£21,707	£26,778	£26,561	£25,146	£24,061
30	£10,641	£10,564	£10,140	£10,113	£10,902	£10,871	£10,664	£10,498
32	£5,000	£5,000	£5,000	£5,000	£5,000	£5,000	£5,000	£5,000

Source: Hymans Robertson using Fidelity costs and charges



**For an average member, paying 8% employee contributions and 12% employer contributions**

Years to retirement	Property Fund		Cash Fund		Global Equity Fund		Blended Assets Fund	
	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	£216,223	£201,398	£139,125	£136,120	£278,718	£270,257	£220,964	£189,446
3	£201,440	£188,383	£132,613	£129,875	£255,664	£248,387	£205,587	£177,806
5	£186,826	£175,438	£125,922	£123,450	£233,460	£227,258	£190,429	£166,161
10	£151,050	£143,346	£108,281	£106,451	£181,504	£177,545	£153,464	£136,980
15	£116,302	£111,579	£89,035	£87,804	£134,323	£132,033	£117,767	£107,620
20	£82,519	£80,064	£67,749	£67,044	£91,558	£90,436	£83,272	£77,975
25	£49,636	£48,723	£43,902	£43,612	£52,877	£52,484	£49,913	£47,935
30	£17,549	£17,484	£16,869	£16,830	£17,971	£17,926	£17,627	£17,387
32	£5,000	£5,000	£5,000	£5,000	£5,000	£5,000	£5,000	£5,000

Source: Hymans Robertson using Fidelity costs and charges

The assumptions used in these calculations were:

- The opening DC pot size is £5,000, which was the average pot size for members in December 2017.
- A contribution in current day terms of either 4% employee and 5% employer or 10% employee and 12% employer. For a member with a salary of £32,000, which was the average salary for members at December 2017, this is equivalent to contributions of £2,880 p.a. or £7,040 p.a. respectively.
- The gross investment return for each fund above was:

Fund	Return % p.a.
Equities	3.70%
Blended Assets	2.15%
Cash	-1.32%
Property	2.00%
Global Equities	3.70%

- The rate of inflation was assumed to be 2.5% p.a.
- Real salary growth was assumed to be 1% p.a.
- The rate of increase in costs and charges is 0% p.a.
- The assumptions as used in the Statutory Money Purchase Illustrations included with members' benefit statements have otherwise been used.

Please note that these illustrated values:

- Are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice.
- The assumptions used may differ in the future to reflect changes in regulatory requirements or investment conditions.
- Will be affected by future, and as yet unknown, changes to the Fund's investment options.
- Are not guaranteed.
- Depend upon how far members in the default lifestyle option are from retirement as the funds used change over time.
- May not prove to be a good indication of how your own savings might grow.
- Comply with the Technical Actuarial Standards (TAS) 100: Principles for Technical Actuarial Work.