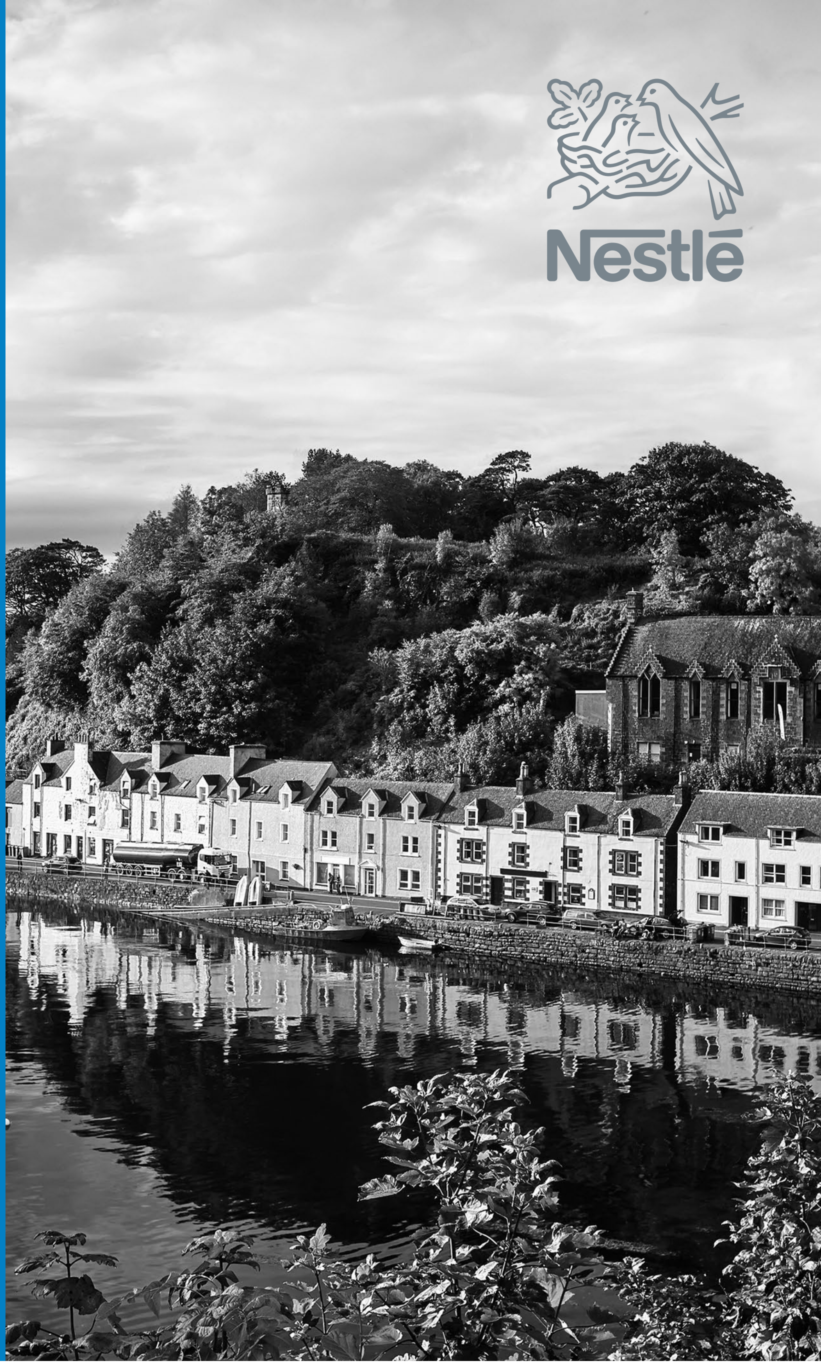
Nestlé UK Pension Fund

Annual statement regarding governance of the DC sections of the Fund

For year ending 31 December 2019



1. Introduction

This statement has been prepared by the trustee (the 'Trustee') of the Nestle 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; and
- The requirement for trustee knowledge and understanding between 1 January 2019 and 31 December 2019 (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 14 February 2019, 16 May 2019, 15 August 2019 and 21 November 2019. The DCC then formally reports back to the full Trustee Board at its quarterly meetings (over the period these meetings took place on 6 March, 5 June, 5 September and 18 December). 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** to provide access to members.

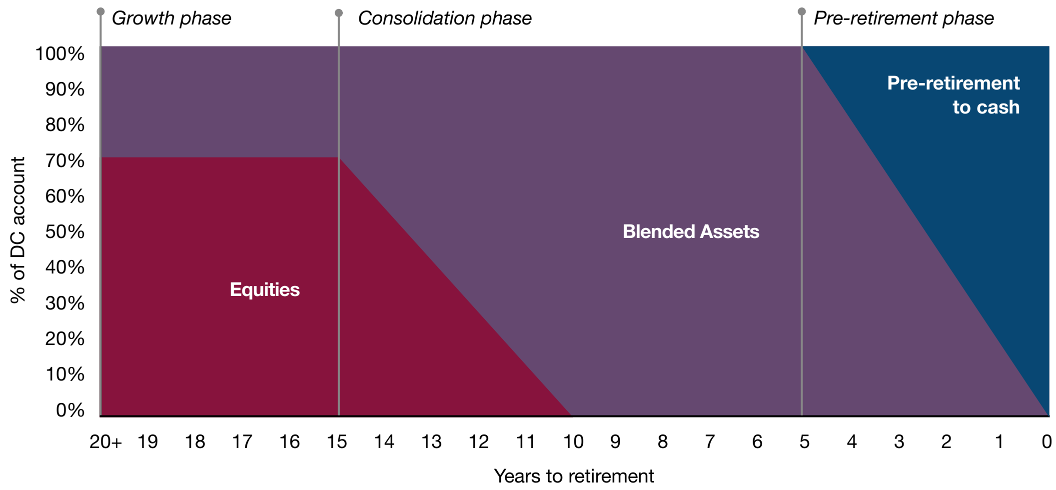
2. Default DC investment arrangement

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 (for the purposes of the Administration Regulations).

The Lifetime Pathway Fund has been in place since August 2017 and it 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 Lifetime Pathway Fund is appropriate as the default DC investment arrangement for the majority of the Fund's DC Core and DC Start 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 suggested that most members take their DC accounts as cash at retirement. The Trustee has also undertaken analysis of members' DC accounts at retirement, at 31 March 2019, which shows projected DC accounts at retirement on a member-by-member basis, and has supported the view that, over the next 5-10 years, most members are expected to take their DC accounts as cash at retirement.



2.1 Statement of Investment Principles

The main investment principle governing the Lifetime Pathway Fund is:

- To provide good member outcomes at retirement while subject to a level of investment risk that is appropriate to the majority of those members who do not make active investment choices.

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 DC investment 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 on 5 December 2016 and finalised on 14 February 2017, with changes implemented on 1 August 2017. As such, the Trustee did not carry out a full review of the default investment arrangement during this Fund year. The Trustee started to carry out its next full review in Q1 2020 and aims to finalise this by the end of Q2 2020.

On 14 January 2019, the Trustee took the decision to disinvest from the Kames Absolute Return Bond Global (KARB) Fund, following investment advice received from Hymans Robertson. The KARB Fund was an underlying fund in the Pre-Retirement to Cash Fund (allocation 50%, along with the LGIM Cash Fund, which also had a 50% allocation). Following the disinvestment from the KARB Fund, the Pre-Retirement to Cash Fund was invested 100% in the LGIM Cash Fund.

Further to this, the Trustee carried out a light-touch annual review of the Lifetime Pathway Fund strategy and performance on 14 February 2019. This involved, amongst other things, reviewing the framework and objectives of the Lifetime Pathway Fund, reviewing the performance of each phase of the Lifetime Pathway Fund (the growth phase, consolidation phase and pre-retirement phase) as well as reviewing the choices of members at retirement to ensure the design of the Lifetime Pathway Fund at retirement remains suitable.

Following the disinvestment from the KARB Fund and the light-touch annual review, the Trustee continued to review underlying fund options over the course of the Fund Year particularly in relation to the Pre-Retirement to Cash Fund. The Pre-Retirement to Cash Fund makes up part of the pre-retirement phase of the Lifetime Pathway Fund (the default DC investment arrangement for DC Core and DC Start members).

The Trustee is satisfied that the Lifetime Pathway Fund 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.

The Lifetime Pathway Fund is then being reviewed more fully as part of the aforementioned review in Q1 and Q2 2020.

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 SLA's 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 three working days of completion of a reconciliation exercise; and
- Reviewing the accuracy of basic member information held on the pension administration system each quarter.

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 performed a reconciliation of monthly contributions;
- The Nestlé pensions accounts and DC processing teams monitored receipts of contributions into the DC bank account;
- The monthly contributions schedule detailing dates of receipt was reported at each quarterly DC Committee meeting; and
- The Nestlé pensions DC processing and accounts teams monitored the DC bank account each day and reconciled 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 performed monthly unit reconciliations between the pension administration system and the Fund Manager.

All investment trades and bank account transactions were 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 was performed by the DCC.

The Trustee is comfortable that these internal controls are reasonable and appropriate and that they evidenced and helped ensure the accuracy and promptness of core financial transactions during the Fund Year. The Trustee is satisfied that the DC financial transactions were processed accurately and promptly during the Fund Year.

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 in September 2018.

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 ('OCE'). OCEs include, for example, the fund's custodian costs. While the AMC is usually fixed, the OCE, and hence the TER, can vary slightly from day to day.

Transaction costs

Your DC account is invested in funds managed by investment managers. In the same way that you pay fees when you buy and sell goods online or when you buy or sell a house, the investment managers have to pay fees when they make changes to what they hold in their funds. These are called '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.

So, for example, if an investment manager sells shares in BP and buys shares in Shell, there will be a cost of the manager carrying out those transactions – hence the term 'transaction costs'. The timing of when they make the purchase or sale also impacts the costs.

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 a 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). The 'bid' price is the price to purchase units in the provider's funds, where the 'offer' price is the price to sell units in the provider's funds.

We monitor the transaction costs to make sure they are broadly in line with similar funds, as well as taking into account the fund's performance, and we aim to ensure you are getting value from your investments.

Charges for the default arrangement

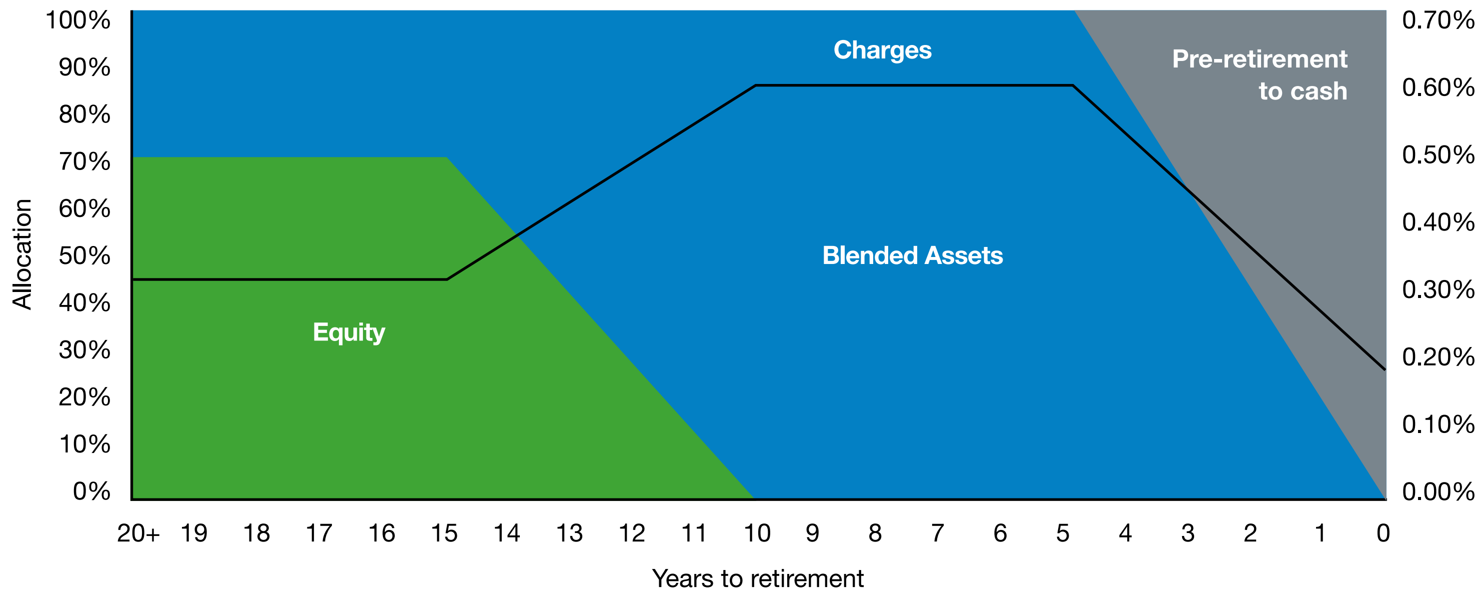
The **Lifetime Pathway Fund** is a ‘lifestyle strategy’ which invests contributions in funds according to how far each member is from retirement. As a result, charges borne by each member can vary from one year to the next. The glidepath for the Lifetime Pathway Fund is shown on **page 3**.

During the Fund Year covered by this Statement, the member-borne charges for the **Lifetime Pathway Fund** ranged from 0.180% to 0.595% of the amount invested or, in cash terms, in a range from £1.80 to £5.95 per £1,000 invested. The following table shows how these charges vary from year to year, according to how far each member is from retirement:

Period to retirement	Charge	
	% p.a.	£ per £1,000 invested
15+ years	0.31%	£3.09
13 years	0.42%	£4.24
Between 5 and 10 years (when charges are at their highest)	0.60%	£5.95
3 years	0.43% (after 14 January 2019) 0.48% (before 14 January 2019)	£4.29 (after 14 January 2019) £4.81 (before 14 January 2019)
At retirement (when charges are at their lowest)	0.18% (after 14 January 2019) 0.31% (before 14 January 2019)	£1.80 (after 14 January 2019) £3.10 (before 14 January 2019)

Source: Fidelity

The following chart also shows graphically how these charges vary from year to year, according to how far each member is from retirement:



The average charge for the default Lifetime Pathway over a 40-year savings period was 0.37% of the amount invested or, put another way, £3.74 for each £1,000 invested.

Note, the chart above does not include the charges that were in place between 1 January – 14 January 2019, when 50% of the Pre-Retirement to Cash Fund was invested in the Kames Absolute Return Bond Global Fund. The charge (TER) at retirement between 1 January – 14 January 2019 was 0.31% or, in other words, £3.10 per £1,000 invested.

The table in **Schedule 2a**, on **page 38**, gives the charges for each underlying fund used in the Lifetime Pathway Fund.

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 Fund Year covered by this Statement.

Transaction costs for the default arrangement

The Lifetime Pathway Fund is made up of three underlying asset classes/phases; Equities, Blended Assets and Pre-retirement to cash. The transaction costs for the default fund ranged from 0.00% to 0.43% p.a. of the amount invested or, in cash terms, in a range from £0.00 to £4.30 for each £1,000 invested. The transaction costs provided applied during the Fund Year covered by this Statement.

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

Self-select funds

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

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

During the year the charges for the self-select funds were in a range from 0.160% to 0.595% of the amount invested or, in cash terms, in a range from £1.60 to £5.95 for each £1,000 invested.

The table in **Schedule 2b**, on **pages 39-40**, gives the charges for each self-select fund that applied during the Fund Year.

Transaction costs for the investment options outside the default arrangement

Self-select funds

The transaction costs borne by members in the self-select funds for the Fund Year that have been obtained for were in a range from -0.19% to 0.43% of the amount invested or, in cash terms, in a range from -£1.90 to £4.30 for each £1,000 invested.

The table in **Schedule 2b** gives the transaction costs for each self-select fund that applied during the Fund Year.

Additional Voluntary Contributions ('AVCs')

Current members in the Fund are also able to make AVCs. These members can invest their AVCs in the Lifetime Pathway Fund or the self-select funds offered, as detailed above.

The Fund also holds historical AVCs, which are AVC arrangements that are no longer open to member contributions.

Charges for current AVCs

During the Fund Year the charges for the AVC funds open to new contributions were in a range from 0.160% to 0.595% of the amount invested or, in cash terms, in a range from £1.60 to £5.95 for each £1,000 invested. Members can invest in the self-select funds detailed above. The tables in **Schedule 2a** and **Schedule 2b** give the charges for each AVC fund open to new contributions during the Fund Year.

Transaction costs for AVCs

The transaction costs borne by members in the AVC funds open to new contributions during the Fund Year were in a range from -0.19% to 0.43% of the amount invested or, in cash terms, in a range from a saving of £1.90 to a cost of £4.30 for each £1,000 invested.

The tables in **Schedule 2a** and **Schedule 2b** give the transaction costs for each AVC fund open to new contributions (i.e. the Lifetime Pathway Fund and the self-select funds).

Charges for historical AVCs

During the Fund Year, the Fund also held historical AVCs with the following providers:

- Standard Life (in unit-linked funds and With-Profits funds)
- Equitable Life (in unit-linked funds and With-Profits funds)
- Clerical Medical (in unit-linked funds only)

A With-Profits fund is managed by an insurance company (such as Standard Life). The investment returns on AVC benefits are not directly linked to any specific investments. Instead, depending on how well the insurance company (and their investments) is doing, members may receive bonuses each year as well as an extra bonus when they retire. For some policies there is also a minimum guaranteed level of annual bonuses that will be applied.

A unit-linked fund is a fund whereby members hold units in the fund. The price of the units changes daily depending on the value of the investments that the fund holds. If the value goes up, so will the value of a member's benefits, and likewise, if the value of the investments goes down, so will the value of the member's benefits.

The Trustee undertook a review of historical AVCs in 2018 considering the charges, the investment funds, the investment returns, the security of assets and the availability of member information. Following this review, the Trustee concluded that the historical unit-linked AVCs no longer provided sufficiently good value for members and, during the Fund Year, devised a plan to transfer the historical unit-linked AVC funds to the DC Core section. The Trustee decided not to transfer the historical With-Profits AVCs held with Equitable Life and Standard Life to the DC Core section because it was unable to establish with certainty whether transferring historical With-Profits AVCs would offer better value to members.

Charges for historical unit-linked AVCs

Charges borne by members applying to the historical unit-linked AVCs during the Fund Year were in the range from 0.495% to 2.19% or, in cash terms, £4.95 to £21.90 per £1,000 invested.

The table in **Schedule 2c** gives the charges for each of the historical unit-linked AVC funds, except those relating to AVCs held with Equitable Life, for the reasons explained in the **Missing information** section.

During the Fund Year, Equitable Life was preparing to sell some of its business, including the historical AVCs held by Equitable Life, to Utmost Life and Pensions. The transfer of unit-linked historical AVCs to DC Core and transfer of historical AVCs held by Equitable Life to Utmost Life happened after the end of the Fund Year. These transfers will be reported on more fully in the 31 December 2020 Chair's statement.

On 1 January 2020, the AVC funds held with Equitable Life were transitioned to Utmost Life and Pensions after advice was obtained from Hymans Robertson. Furthermore, on 3 February 2020, the AVCs held with Clerical Medical and the unit-linked AVCs held with Standard Life were invested with Fidelity. As this happened after the year end, further information on the transitions will be included in the 31 December 2020 Chair's Statement.

The Trustee has reviewed the AVC investment options with Utmost Life and Pensions and plans to transfer these AVCs to the DC Core section during 2020.

Transaction costs for historic unit-linked AVCs

The transaction costs borne by members in the historical AVC funds during the Fund Year were in the range 0.00% to 1.04% of the amount invested or, put another way, in a range from £0.00 to £10.35 for each £1,000 invested. These transaction costs cover different periods, depending on the fund, which are detailed in the Schedules.

The table in **Schedule 2c** gives the transaction costs for each historical AVC fund, except those held with Equitable Life, for the reasons explained below in the **Missing information** section.

Charges and transaction costs for historical With-Profits AVCs

Some historical AVCs were invested in With-Profits funds held by Equitable Life, the Standard Life With Profits One Fund and the Standard Life With Profits One 2006 Fund during the Fund Year.

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 historical With-Profits AVC funds in Q4 2018. This assessment was concluded by the Trustee in Q1 2019. Following this assessment, the Trustee decided 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 the Clerical Medical UK Growth Pension AVC fund during the period covered by this Statement. Hymans Robertson have had confirmation from Clerical Medical that the relevant transaction costs have been requested. Hymans Robertson have requested an update on the delivery time and will continue to chase this information. Currently, the transaction costs for the 12 months to 31 October 2019 have been included.

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

- The Trustee continues to request the information from Clerical Medical.

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 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** of this Statement show these figures for the Lifetime Pathway Fund 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 36 with a pot size of £7,750, a salary of £28,500, 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 £125,916 to £112,295.

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 36 with a pot size of £7,750, a salary of £28,500, 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 £261,432 to £234,100.

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 as at 31 December 2019 the extent to which the charges and transaction costs set out in section 4.1 above represent good value for members.

As members bear the costs of investment management and investment transactions only, the Trustee's assessment looked at whether those combined investment costs provided good value for members. The Trustee has assessed value using a scoring methodology of five value categories spanning poor (1) to excellent (5).

The Trustee's definition of 'value for members', in line with The Pensions Regulator'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. A rating of good (4) in the scoring methodology used by the Trustee corresponds to the Fund providing services at better quality / cost compared with other typical options or similar schemes 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 could otherwise be improved.

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

- The charges for the Lifetime Pathway Fund (the default DC investment arrangement) are under the 0.75% p.a. charge cap requirement and moves from 0.31%p.a. (during the growth phase), 0.60%p.a. (during part of the consolidation phase between 5 and 10 years from retirement) to 0.18%p.a. (at the end of the de-risking phase). Over a 40-year saving period the average charge is therefore 0.37% p.a. The Trustee notes that this compares favourably 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 nine self-select funds from which the membership can choose. The Trustee considers that this is a suitable range of self-select funds given the Fund's membership characteristics. The total charges for the self-select funds range from 0.16% to 0.60% 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 range from -0.19% to 0.43%, which the Trustee (whilst accepting 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 adviser continues to monitor charges and receives quarterly detailed investment reports.

- Funds are made available via an investment-only platform, which provides additional benefits such as allowing a wider range of manager funds to be made available and using the aggregation of assets to gain economies of scale, thus reducing the charges of individual funds.

Additional Voluntary Contributions ('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 9** of this Statement.

Steps taken to improve value for members during the Fund Year

During the Fund Year, the Trustee took the following steps to improve value for members:

- Fund fees, suitability and performance have been regularly assessed through input from the Fund's DC investment adviser;
- The Trustee monitored and reviewed fund performance, suitability and charges on a quarterly basis;
- The Trustee undertook a light-touch annual review of the investment strategy between Q1 and Q4 2019 to ensure the strategy remained appropriate for members and that it provides them with the best chance of a good outcome in retirement;
- The Trustee switched one of the underlying funds used in the Pre-Retirement to Cash fund;
- The Trustee formalised its investment beliefs, including those on Environmental, Social and Governance (ESG) considerations, and updated the Statement of Investment Principles to reflect the September 2018 Regulations on Responsible investment which came into force on 1 October 2019;
- Following the review of AVCs, the Trustee concluded that the unit-linked AVC funds with Equitable Life (and Utmost Life and Pensions following the sale of Equitable Life's business to Utmost Life and Pensions), Standard Life and Clerical Medical no longer provided good value for members and therefore the Trustee devised a plan to transfer members' funds to the DC Core section. From there members will be able to access the Lifetime Pathway Fund and self-select funds which are believed toprovide better value for members than the historical unit-linked AVC funds; and
- As set out on **page 3** of this Statement, the Trustee carried 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.

During 2020 the Trustee intends to:

- Undertake a full review of the Lifetime Pathway Fund, the default DC investment arrangement, in line with statutory requirements;
- Continue with the AVC transition exercise by transitioning the unit-linked funds held with Clerical Medical, Standard Life and Utmost Life and Pensions to the current AVC options available in DC Core;
- Continue to regularly review funds and monitor performance;
- Prepare an implementation statement, in line with statutory regulations, confirming that the Fund has acted in line with its responsible investment policies set out in its DC Statement of Investment Principles;
- Continue to monitor developments on ESG considerations; and
- Consider conducting an additional value for members assessment which includes employer-borne charges, as opposed to solely considering member-borne charges, and undertake an overall value for money assessment.

5. Trustee knowledge and understanding

During the Fund Year, the Trustee Board has ensured that it has:

- A working knowledge of the trust deed and rules;
- A working knowledge of the current SIP;
- A working knowledge of all documents setting out the Trustee's current policies;
- Sufficient knowledge and understanding of the law relating to pensions and trusts; and
- Sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes in the following ways.

Every Trustee Director is made aware of the requirements of sections 247 and 248 of the 2004 Act (requirements for knowledge and understanding). Individual training needs are identified and managed accordingly.

All Trustee Directors have completed the Trustee Toolkit (an online learning programme from The Pensions Regulator aimed at trustees of occupational pension schemes). During each Fund Year it is expected that the Trustee Directors will continue to satisfy the trustee knowledge and understanding ('TKU') requirements by undertaking individual training and completing an ongoing programme of training throughout the year as a full Trustee Board.

The Fund uses an online system for providing meeting papers and this also has a directory where all Fund documents (including the Trust Deed and Rules, SIP and policy documents) are held. All Trustee Directors have access to this. Over the course of the Fund Year, the full Trustee Board received training from its advisers on a range of topics relevant to DC benefits and DC governance, including ESG and member engagement. All training undertaken during the Fund Year is recorded in the 2019 training log. In December 2019, a formal review of TKU was conducted and the results were shared with the Trustee at the Q4 Board meeting. This will form the foundation of the ongoing training in 2020. This review also asked the Trustee about the level of knowledge they felt they had in relation to all areas of TKU and whether this gave them full confidence when undertaking their role.

In addition, the Trustee received advice on investment matters from Hymans Robertson, legal matters from Sackers and other issues from other advisers as necessary. The Trustee's advisers attended board meetings and sub-committee meetings as appropriate and their advice included training and/or the provision of relevant information to support decision making. The Trustee Directors also had access to regular bulletins and newsletters from their advisers.

Planning meetings are arranged for all full Trustee Board and DCC meetings and representatives from Nestlé Pensions, Sackers (Trustee Board planning meetings) and Hymans Robertson (DCC planning meetings) attended these to ensure that service and technical aspects are explained and understood and that the training and information needed to support the Trustee's TKU and effective decision making were provided at the right time. 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 Trustee Board. In addition, there is a dedicated Head of Engagement with extensive pensions communications expertise who works with the DCC to develop and implement clear, effective and engaging communications materials.

There were no new Trustee Directors appointed during the Fund Year. When new Trustee Directors are appointed, they are expected to complete the Trustee Toolkit within six months of appointment and bespoke, Fund-specific training is made available to them. This includes the opportunity of attending an initial training day with the Fund advisers. This training (as with the ongoing programme of training) has the aim of giving them a working knowledge of the Fund's governing documentation (including the Trust Deed and Rules, the Statements of Investment Principles and funding principles, and other documents setting out trustee policies) as well as giving them an understanding of the law relating to pensions and trusts, and funding and investment in relation to both the DB and DC elements of the Fund.

The Trustee Board also considers whether their combined knowledge and understanding, together with available advice, enables them to properly exercise their functions by carrying out reviews of their effectiveness against objectives. In 2018, 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 could be developed further, so a training plan was agreed and implemented with the Fund advisers to further enhance the Board's capabilities. Following this, the annual training day, run on 17 December 2019 involved workshops to assess the effectiveness of the Trustee Board by having sessions to consider:

- The high-level purpose of the Fund together with the strategic objectives for the individual stakeholders; and
- The dynamics of the team and how to improve the way that Trustee Directors and advisers work together and make decisions.

This training was supported by specialist psychometric testing and independent evaluation of working and behavioural preferences. It is intended that further work regarding trustee effectiveness will be undertaken during 2020 and that regular reviews will be carried out going forwards.

Throughout the Fund year, all Trustee Directors have been are encouraged to raise issues or suggestions and have easy access to the Chairman in order to do this. This will continue on an ongoing basis.

The Trustee Board considers that the following enables the Trustee to properly exercise its functions as Trustee of the Fund:

1) The initial training programme in place for new Trustee Directors;
2) The Trustee training initiatives described above and carried out over the course of the Trustee Directors' appointments;
3) The evaluation of ongoing performance and effectiveness of the Trustee Board and the identification of training needs; and
4) The extensive support and professional advice available to Trustee Directors, which is structured to take account of matters likely to arise for consideration by the Board.

Signed on behalf of the Trustee Board

Steve Delo - Chair of the Trustee Board

29 July 2020

Schedule 1

DC Statement of Investment Principles for the Nestlé UK Pension Fund

Introduction

The law requires Nestlé UK Pension Trust Limited ('the Trustee') to produce a formal Statement of Investment Principles (the 'SIP') for the Nestlé UK Pension Fund ('the Fund') default arrangement and its other investment options. This SIP sets out what the Trustee aims to achieve with the investment options and the investment policies which guide how members' money is invested.

This SIP covers a number of technical points to comply with legislation as well as meet the expectations of The Pensions Regulator and needs of the Fund's Auditors which, as far as possible, are shown separately in 'For the record' boxes. The Fund comprises of both a defined benefit section ('DB Section') and defined contribution section ('DC Section'). This document only covers the defined contribution section of the Fund.

Statement of Investment Principles

The Trustee's Statement of Investment Principles for the DC Section contained in this document includes the:

1. **Statement of the aims and objectives for the default arrangement***;
2. **Statement of the aims and objectives for investment options outside the default arrangement***; and
3. **Statement of investment beliefs, risks and policies****.

The Statement of Investment Principles for the DC Section of the Fund** comprises items 1, 2 and 3.

The Statement of Investment Principles for the DC Section of the Fund's default arrangement*** comprises items 1 and 3.

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').

Investment Implementation Document

It is intended that this SIP 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, titled the **Investment Implementation Document** ('IID'). Both the SIP and the IID should be read in conjunction with each other.

For the record

* In accordance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005.

** In accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 as modified by subsequent Regulations and section 35 of the 1995 Act.

*** As required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The Trustee has taken proper written advice from their Investment Consultant(s) and consulted the Principal Employer to the Fund in the preparation of this Statement of Investment Principles.

The Trustee will review the SIP and the IID at least every three years or more frequently as required by the Regulations, and without delay after a significant change in investment policy or demographic profile of the Fund's membership.

This Statement of Investment Principles was completed in August 2019. It will next be reviewed no later than August 2022.

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

Name	Signature	Date
S J Delo		5 Sept 2019

Name	Signature	Date
M S Burridge		5 Sept 2019

1. Statement of the aims and objectives for the default arrangement

1.1 Reasons for the Default Arrangement

The Trustee decided that the DC Section should have a default investment arrangement because:

- The Fund is a qualifying scheme for auto-enrolment purposes and therefore must have a default arrangement;
- It should be easy to become a member of the DC Section and start building retirement benefits without the need to make any investment decisions; and
- The majority of the DC Section's members are expected to have broadly similar investment needs.

The DC Section makes available a default 'lifestyle strategy' (the 'Default Option'), for members who choose not to make an active investment choice. 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.

1.2 Choosing the default arrangement

The Trustee believes that understanding the DC Section's membership is essential to designing and maintaining a default arrangement which meets the needs of the majority of members.

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 investments after the deduction of charges payable on the funds used by the default option.

1.3 Objectives for the default arrangement

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

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 it is in the best interests of the majority of members to offer a default which:

- Manages the principal investment risks members face during their membership of the Fund;
- Maximises investment returns relative to inflation while taking an appropriate level of risk during membership of the Fund for the majority of members who do not make investment choices; and
- Reflects members' likely benefit choices at retirement.

1.4 The default arrangement

The default arrangement is therefore a lifestyle strategy which:

- Gradually moves investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the DC Section; and
- Targets the majority of members who are expected to take cash at retirement and/or Uncrystallised Funds Pension Lump Sums for a few years into retirement.

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for the default arrangement. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change are described in **Section 3**.

Full details of the current default arrangement are given in the IID.

2. Statement of the aims and objectives for investment options outside the default arrangement

2.1 Reasons for the investment options

In addition to the default arrangement, the DC Section offers members a choice of self-select options because:

- While the default arrangement is intended to meet the needs of a majority of the DC Section's members, it may not meet the needs of a wider cross-section of members;
- 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;
- Members have differing investment needs and these needs change during their working lives; and
- Some members will want to be more closely involved in choosing where their contributions are invested.

2.2 Choosing the investment options

Membership analysis

The Trustee believes that understanding the DC Section's membership is important to maintaining an appropriate range of investment options. The Trustee has taken into account many aspects including:

- The members' age and salary profile;
- The likely sizes of members' pension pots at retirement;
- Members' retirement dates and likely range of benefit choices at retirement;
- The levels of investment risk and return members may be willing to take;
- The degree to which members are likely to take an interest in where their contributions are invested; and
- The number of members who are likely to want responsible, ethical or faith-based investment choices.

Costs of investment options

The investment costs are borne by members and so a balance needs to be struck between choice and costs.

2.3 Objectives for the investment options

The DC Section offers members a choice of investment options as an alternative to the default arrangement. The objectives of the self-select fund range are to:

- Provide a choice of individual funds for members who want to be more closely involved in choosing where their pension pots are invested;
- Complement the objectives of the Default Arrangement;
- Provide a broader choice of levels of investment risk and return;
- Help members more closely tailor how their pension pots are invested to their personal needs and attitude to risk; and
- Help members more closely tailor how their pension pots are invested to reflect the benefits they intend to take at retirement.

Nevertheless, the self-select fund range cannot be expected to cover all the investment needs of all members.

Risk and return

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for these investment options. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change, are described in **Section 3**.

Full details of the current options are provided in the IID.

3. Statement of investment beliefs, risks and policies

3.1 Investment beliefs

The Trustee's investment decisions are made in the context of their investment beliefs, which are:

- An effective investment strategy must have clearly defined objectives for both return and risk, and clear measures of success that allow progress to be monitored.
- To meet our objectives, we need a clear understanding of the risks that we are taking and to only take risks that we believe are adequately rewarded. To the extent it is possible, we try and mitigate any unrewarded risks through strategies such as hedging.
- The most significant contribution to meeting our investment objectives will come from our asset allocation and risk management choices.
- Good governance and decision-making will positively impact our ability to meet our objectives.
- Our approach to investment should avoid unnecessary complexity.
- Over the long term, higher-risk assets (such as equities) are expected to outperform lower-risk assets (such as bonds), but their returns are also expected to show higher variability.
- Diversification within and across asset classes reduces the risk created by particular investments failing and should lower the volatility of overall returns.
- We believe that investments should be assessed in a value-based context, i.e. the impact of investments on both expected and actual risk-adjusted returns should be viewed net of costs. Additionally, the impact of costs needs to be understood before we invest and they should be kept as low as possible without compromising our objectives.

3.2 Risks

3.2.1 Principal investment risks

The Trustee believes that the three principal investment risks most members will face are:

Inflation risk – The risk that investment returns over members' working lives may not keep pace with inflation and, as a result, not produce adequate retirement benefits.

For members further away 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' account 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.

3.2.2 Other investment risks

The Trustee believes that other investment risks members may face include:

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.

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.

Currency risk – The risk that changes in exchange rates will impact the values of investments outside the UK when they are being bought or sold.

Interest rate risk – The risk that the value of funds which invest in bonds will be affected by changes in interest rates.

Default risk – The risk that, for investments in bonds (where money is lent in return for the payment of interest), the company or government borrowing money fails to pay the interest due or repay the loan.

Environmental, Social and Governance ('ESG') risks – The risk that ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

Climate risk – The risk that climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

3.2.3 Managing investment risks

The Trustee has developed and maintains a framework for assessing the impact of all investment risks on long-term investment returns.

Principal investment risks

The Trustee monitors the age profile of the DC Section's membership to arrive at an appropriate investment horizon when considering all investment risks. As a result, investment risks need to be considered over a multi-decade time horizon.

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 from higher risk investments to lower risk investments as they approach retirement.

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

Other investment risks

The Trustee manages the other investment risks as part of the process for selecting and ongoing monitoring of the funds used by the DC Section.

The funds used give a good spread of investments which will help manage risks associated with market conditions, fund manager actions and default.

At this time, the Trustee has not made explicit allowance for climate change within the development or implementation of its investment strategy. The Trustee does discuss the potential impact of climate risks with its adviser and managers on a periodic basis and will monitor developments in this area.

3.3 Responsible investment principles

The Trustee has an objective to stay up to date with new developments and emerging risks in ESG factors. The Trustee's policy on ESG is summarised by these points:

- ESG factors (which include climate change) are likely to be financially material to the Fund's default arrangement and self-select options over the time horizon applicable to members invested in those options.
- In the long term, better financial returns are likely to be achieved by investing in companies and assets that demonstrate they contribute to the long-term sustainable success of the global economy.
- ESG factors will become increasingly financially material and an important factor in strategic decision making.
- All else being equal, the strategy should allocate to asset classes where ESG can be integrated into decision making. However, this does not mean that the Trustee will allocate to asset classes for ESG reasons alone or preclude the use of asset classes where this is not possible; ESG will be assessed along with other factors such as investment risk and return.
- For each new asset class considered, the relevance of ESG will be assessed and weighted accordingly when carrying out manager selection exercises and while determining the investment approach (e.g. active or passive). Whilst, for existing asset managers we regularly review their processes to ensure the extent to which they integrate ESG into their investment process is sufficient for that asset class. For each asset class, the relevance of good stewardship should be assessed to ensure that Investment Managers engage with companies where appropriate. Where voting rights are held (e.g. through direct equity ownership), these rights should be exercised.
- The Trustee requires Investment Managers to provide quantitative reporting on ESG where possible and monitor quantitative ESG reporting, using this to inform future manager selection and asset allocation decisions.

3.4 Expected returns on investments

The Trustee believes that it is important to balance investment risks with the likely long-term returns from different types of assets used in funds (taking the funds' costs and charges into account). 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; and

Property – Should deliver a positive return but with lower levels of return and volatility compared to equities.

3.5 Types of funds used

3.5.1 Delegation of investment decisions

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; and
- Derivatives to facilitate efficient portfolio management.

This enables the DC Section to invest in a range of funds giving a good spread of investments in a cost-effective manner. It does mean that the Trustee has delegated day to day investment decisions including the management of financially material considerations to the fund managers.

For passively managed funds, the Trustee recognises that the role of the manager is to track an index and the choice of index will dictate the assets held. The Trustee will periodically review the indices used for this purpose.

For actively managed funds (where the fund manager decides where to invest) fund managers are expected to take financially material considerations into account when deciding on the selection, retention and realisation of investments where permissible within the applicable guidelines and instructions.

3.5.2 Security of assets

The funds are provided through a policy of insurance issued to the Trustee by the platform provider. As a result, the value of the funds may be affected in the event of the provider getting into financial difficulties.

The underlying funds used by the provider's platform are accessed through reassurance agreements/unit purchase agreements/segregated investment mandates. In the event of a fund manager getting into financial difficulties, the values in these underlying funds will depend upon the nature of the contract with the platform provider and the fund vehicles used by the fund managers' funds.

3.5.3 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.

3.5.4 Balance 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.

3.6 Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment platform and fund managers and the monitoring of compliance with agreed policies.

3.6.1 Members' financial interests

The Trustee has requested that the Investment Managers will have the members' financial interests as their first priority when choosing investments.

3.6.2 Voting and engagement

The Trustee believes that engagement with the companies in which the DC Section invests, including the proactive use of shareholder voting rights, can improve the longer-term returns on the DC Section's investments.

The DC Section invests via an investment platform provider, who in turn invests in funds which are pooled with other investors to keep costs down and ensure adequate diversification. As a result, the Trustee has adopted a policy of delegating voting decisions on stocks to the underlying fund managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustee is planning to review the voting and engagement policies of the fund managers over the coming year as well as the approach to governance of the investment platform provider to determine that these policies are appropriate. Going forward, on an annual basis, the Trustee will request that the investment platform provider and fund managers provide details of any change in their house policy.

Where appropriate, the Trustee will engage with and may seek further information from the investment platform provider and fund managers on how portfolios may be affected by a particular issue.

The Trustee does not engage directly, but believes it is sometimes appropriate for the fund managers to engage with key stakeholders, which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustee aims to review engagement activity undertaken by the fund managers as part of its broader monitoring activity.

3.6.3 Non-financial factors

The Trustee recognises that some members will have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested.

The Trustee recognises the importance of offering a suitable range of investment options for members who wish to express an ethical preference in their pension saving. The Trustee offers a number of ethical funds as self-select investment options and keeps the range of self-selected funds under review.

While the Trustee may take members' views into account when reviewing the suitability of the Fund's investment options and choice of funds used, the Trustee notes that non-financial factors can affect various investment risks which are borne by members and may under perform other funds with broader-based investment approaches. The Trustee does not take non-financial factors into account in the selection, retention and realisation of investments in the default arrangement and other lifestyle strategies.

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 Statement of Investment Principles (‘SIP’) for the DC Section.

As such, both documents should be read in conjunction, with the SIP 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 the Chief Investment and Risk Manager and the DC Committee (‘DCC’). In line with the SIP, 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 Fund’s SIP (which is principles-based in nature).

The IID covers the broad areas as follows which relate to the 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 the 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 retirement; or
- Buying an annuity at retirement or several years into retirement.

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

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

- The value of their account 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; and
- 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' accounts in the Fund into consideration. 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 account 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 members is 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

The rationale for having a Default Option is detailed in the Statement of Investment Principles.

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 showed that:

- The majority of members retiring in the next few years are expected to have relatively small DC pots at retirement; and
- 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.

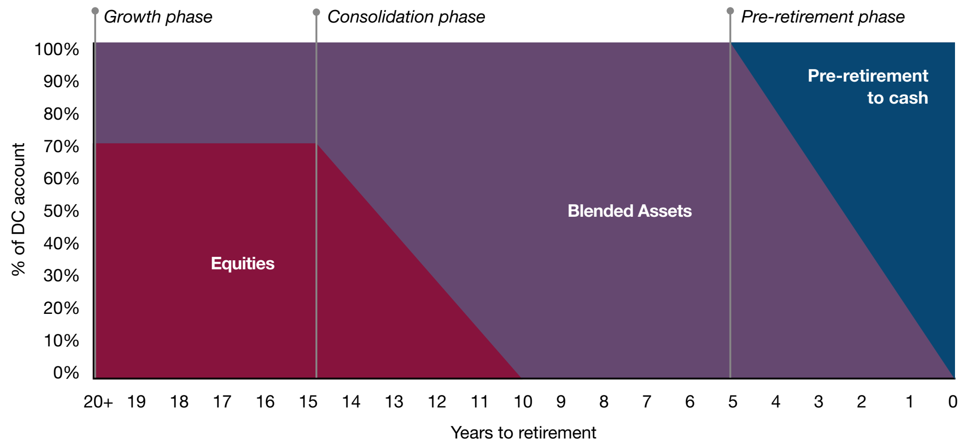
Objectives of the Default Option

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 arrangement. 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; and
- 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 as depicted below:



Note that during the Growth phase, the Global 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 Advisers (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 Advisers (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	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.	100.0% 7-day LIBID

*These are blended funds. Underlying funds and allocations are shown on **page 35**.

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 account 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 account 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 Advisers (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	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.	100.0% 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 35.

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 equites 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 equites 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 35**.

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 35**.

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

3.4 Additional Voluntary Contributions ('AVCs')

Some members in the Fund hold historic AVCs that are closed to new contributions with the following providers:

- Standard Life;
- Equitable Life; and
- Clerical Medical.

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, which are all closed to new contributions.

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 Trustee 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 platform provider 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 36 and 37**.

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; and
- 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' or 'TER') 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 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 includes a platform fee of 0.08%. The TER excludes transaction costs on a fund’s underlying assets.

Default Option

Fund	Total Expense Ratio (TER)
Growth Fund	0.31%
Equity Fund	0.20%
Blended Assets Fund	0.595%
Pre-retirement to Cash Fund	0.18%

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	0.19%
Blended Assets Fund	50% Schroders Diversified Multi Asset Fund / 50% Invesco Global Targeted Returns Fund	0.595%
Pre-Retirement to Cash	100% Legal & General Cash Fund	0.18%
Cash	Legal & General Cash Fund	0.18%
Property	Legal & General 70:30 Hybrid Property Fund	0.49%
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 TERs on **pages 34** and **35** are accurate as at August 2019.

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 Statement of Investment Principles and reviewing the content of the 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 advisers 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 this Statement on a regular basis; and
- 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 this Statement in consultation with the Principal Employer;
- Providing the Trustee with quarterly reports including commentary on any changes to funds' investment approaches 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; and
- Providing training or education on any investment related matter as and when the Trustee sees fit.

Platform Provider

All funds are accessed through an investment platform. The investment platform in turn invests in funds provided by a selection of investment managers where investments are pooled with other investors. The platform provider offers a selection of Investment Managers to invest in and performs suitable levels of due diligence before new funds are added to the platform.

Investment managers

All day-to-day investment management decisions have been delegated to the Investment Managers authorised under the Financial Services & 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 this 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; and
- 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; and
- Realising investments to pay benefits.

Appendix 2 – service providers

The Trustee has appointed the following service providers:

Investment Consultant

The investment consultant (for the Defined Contribution Section) is Hymans Robertson LLP.

Platform provider

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

Custodians

The Fund's 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 (members can also pay AVCs into these funds)

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	0.187%	£1.87	State Street Global Multi-Factor Strategy	GB00BDH3QG06	0.00%	£0.00	01/01/2019 – 31/12/2019
				State Street Emerging Markets Equity Index Fund	GB00BF0YV144			
Blended Assets	GB00BDT7X814	0.595%	£5.95	Schroder Diversified Multi-Asset Fund	GB00B433JR39	0.43%	£4.30	01/01/2019 – 31/12/2019
				Invesco Global Targeted Returns Fund	GB00B8CHD050			
Pre-retirement to cash*	GB00BDT7XC51	0.180% (after 14 January 2019)	£1.80 (after 14 January 2019)	L&G Cash Fund	GB00B6V6T565	0.00%	£0.00	01/01/2019 – 31/12/2019
		0.31% (before 14 January 2019)	£3.10 (before 14 January 2019)	L&G Cash Fund	GB00B6V6T565	Requested		
				Kames Absolute Return Bond Fund	IE00BVVQ0700			

Source: Fidelity

*This fund was invested 50% in Kames Absolute Return Bond Global Fund between 1 – 14 January 2019 thereafter it was invested 100% in the L&G Cash Fund.

2b Self-select funds outside the default arrangement and AVC funds open to new contributions

The funds' charges (as 'Total Expense Ratios') and transaction costs in the last year for the self-select funds and AVC funds open to new contributions 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	0.187%	£1.87	State Street Global Multi-Factor Strategy	GB00BDH3QG06	0.00%	£0.00	01/01/2019 – 31/12/2019
				State Street Emerging Markets Equity Index Fund	GB00BF0YV144			
Blended Assets	GB00BDT7X814	0.595%	£5.95	Schroder Diversified Multi-Asset Fund	GB00B433JR39	0.43%	£4.30	01/01/2019 – 31/12/2019
				Invesco Global Targeted Returns Fund	GB00B8CHD050			
Pre-retirement to cash*	GB00BDT7XC51	0.180% (after 14 January 2019)	£1.80 (after 14 January 2019)	L&G Cash Fund	GB00B6V6T565	0.00%	£0.00	01/01/2019 – 31/12/2019
		0.31% (before 14 January 2019)	£3.10 (before 14 January 2019)	L&G Cash Fund	GB00B6V6T565	Requested		
				Kames Absolute Return Bond Fund	IE00BVVQ0700			
Corporate Bonds	GB00BDT7X921	0.430%	£4.30	Fidelity Institutional UK Corporate Bond Fund	GB0033146563	-0.09%	-£0.90	01/01/2019 – 31/12/2019

Source: Fidelity

*This fund was invested 50% in Kames Absolute Return Bond Global Fund between 1 – 14 January 2019 thereafter it was invested 100% in the 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	0.160%	£1.60	BlackRock Connect Up to 5 Years UK Gilt Index Fund	GB00BRYFX886	0.00%	£0.00	01/01/2019 – 31/12/2019
				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	0.01%	£0.10	01/01/2019 – 31/12/2019
				L&G All Stocks Gilts Index Fund	GB00B8ZJTR71			
				L&G All Stocks Index Linked Gilts Index Fund	GB00B8ZHMJ47			
Pre-retirement to Annuity	GB00BDT7XB45	0.170%	£1.70	L&G Pre-Retirement Fund	GB00B6V70Q77	0.00%	£0.00	01/01/2019 – 31/12/2019
Cash	GB00BDT7XD68	0.180%	£1.80	L&G Cash Fund	GB00B6V6T565	0.00%	£0.00	01/01/2019 – 31/12/2019
Property	GB00BDT7X707	0.490%	£4.90	L&G 70:30 Hybrid Property Fund	GB00B6V2TD24	-0.19%	-£1.90	01/01/2019 – 31/12/2019

Source: Fidelity

2c Additional Voluntary Contributions for members

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

The transaction costs detailed below 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	0.25%	£2.50	01/01/2019 – 31/12/2019
CM Cash Pension Fund	GB0002040738			0.01%	£0.10	01/01/2019 – 31/12/2019
Clerical Medical International Growth Pension	GB0002040953			0.75%	£7.50	01/01/2019 – 31/12/2019
Clerical Medical Cautious Pension	GB0002024197			0.19%	£1.90	01/01/2019 – 31/12/2019
Clerical Medical Non-Equity Pension	GB0008525916			0.05%	£0.50	01/01/2019 – 31/12/2019
Clerical Medical UK Growth Pension	GB0002042116			0.50%	£5.00	01/01/2019 – 31/12/2019
Standard Life International Equity Pension Fund	GB0031729394	1.02%	£10.20	0.102%	£1.02	01/01/2019 – 31/12/2019
Standard Life Money Market Pension Fund	GB0031728875	1.01%	£10.10	0.002%	£0.02	01/01/2019 – 31/12/2019
Standard Life FTSE Tracker Pension Fund	GB0031728545	1.01%	£10.10	0.047%	£0.47	01/01/2019 – 31/12/2019

Source: Equitable Life, Clerical Medical, Standard Life

* ISIN = the International Securities Identification Number unique to each fund. Note, Equitable Life do 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 Deposit and Treasury Pension Fund	GB00B64ZNL48	1.01%	£10.10	0.100%	£0.00	01/01/2019 – 31/12/2019
Standard Life Pension With Profits One Fund	Requested	n/a	n/a	0.041%	£1.25	01/01/2019 – 31/12/2019
Standard Life Property Pension Fund	GB0031728214	1.03%	£10.30	0.246%	£1.65	01/01/2019 – 31/12/2019
Standard Life Managed Pension Fund	GB0031729063	1.03%	£10.30	0.157%	£0.42	01/01/2019 – 31/12/2019
Standard Life Ethical Pension Fund	GB0030922081	1.01%	£10.10	0.028%	£1.05	01/01/2019 – 31/12/2019
Standard Life North American Equity Pension Fund	GB0031728107	1.01%	£10.10	0.110%	£0.44	01/01/2019 – 31/12/2019
Standard Life European Equity Pension Fund	GB0031727919	1.02%	£10.20	0.070%	£0.54	01/01/2019 – 31/12/2019
Standard Life Asia Pacific ex Japan Equity Pension	GB0031728438	1.14%	£11.40	0.095%	£0.57	01/01/2019 – 31/12/2019
Standard Life Far East Equity Pension Fund	GB0031729519	1.09%	£10.90	0.125%	£0.58	01/01/2019 – 31/12/2019
Standard life Japanese Equity Pension Fund	GB0031728099	1.02%	£10.20	0.283%	£2.83	01/01/2019 – 31/12/2019
Pension With Profits One 2006 Fund	Requested	n/a	n/a	0.041%	£0.41	01/01/2019 – 31/12/2019

Source: Equitable Life, Clerical Medical, Standard Life

* ISIN = the International Securities Identification Number unique to each fund. Note, Equitable Life do 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
SL Fidelity Asia Pension Fund	GB0031731705	2.19%	£21.90	0.082%	£0.82	01/01/2019 – 31/12/2019
SL Janus Henderson European Selected Opps Pn	GB0031731259	1.95%	£19.50	0.180%	£1.80	01/01/2019 – 31/12/2019
Standard Life Stock Exchange Pension Fund	GB0031729170	1.03%	£10.30	0.136%	£1.36	01/01/2019 – 31/12/2019
Standard Life UK Equity Pension Fund	GB0031729287	1.01%	£10.10	0.151%	£1.51	01/01/2019 – 31/12/2019
SL Threadneedle American Select Pension Fund	GB0031731580	1.88%	£18.80	0.182%	£1.82	01/01/2019 – 31/12/2019
Standard Life Annuity Targeting Pension Fund	GB00BFCNLC09	1.01%	£10.10	0.085%	£0.85	01/01/2019 – 31/12/2019
Standard Life Mixed Bond Pension Fund	GB0031729402	1.01%	£10.10	0.117%	£1.17	01/01/2019 – 31/12/2019
Standard Life Multi Asset Mgd (20-60% Shares) Pn	GB0031728982	1.02%	£10.20	0.117%	£1.17	01/01/2019 – 31/12/2019
SL Vanguard FTSE UK All Share Index Pension Fund	GB00B61HL424	1.02%	£10.20	0.025%	£0.25	01/01/2019 – 31/12/2019
Standard Life UK Equity Select Pension Fund	GB00B51JQP79	1.41%	£14.10	0.078%	£0.78	01/01/2019 – 31/12/2019
SL ASI MyFolio Multi-Manager IV Pension Fund	GB00B3SC5695	1.79%	£17.90	0.268%	£2.68	01/01/2019 – 31/12/2019

Source: Equitable Life, Clerical Medical, Standard Life

* ISIN = the International Securities Identification Number unique to each fund. Note, Equitable Life do 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 At Retirement (Multi Asset Univ) Pn	GB0031727802	1.03%	£10.30	0.220%	£2.20	01/01/2019 – 31/12/2019
Equitable Life With Profits Fund	n/a	1.50%	£15.00	1.035%	£10.35	01/01/2019 – 31/12/2019
Equitable Life Managed Fund	EU23	0.75%	£7.50	0.096%	£0.96	01/01/2019 – 31/12/2019
Equitable Life Pelican Fund	EU26	0.75%	£7.50	0.292%	£2.92	01/01/2019 – 31/12/2019
Equitable Life All Share Tracker Fund	EU96	0.50%	£5.00	0.024%	£0.24	01/01/2019 – 31/12/2019
Equitable Life International Growth	EU31	0.75%	£7.50	0.133%	£1.33	01/01/2019 – 31/12/2019

Source: Equitable Life, Clerical Medical, Standard Life

* ISIN = the International Securities Identification Number unique to each fund. Note, Equitable Life do 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.

Schedule 3

Tables illustrating the impact of costs and charges

The following tables show the potential impact of the costs and charges borne by an average member on projected values in today's money at several times up to retirement for a selection of funds and a range of contribution levels. The table shows a member who joins the Fund 30 years before their target retirement date. At 25 years before retirement, they have been invested for five 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 29 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	£125,916	£112,295
3	£118,711	£106,436
5	£109,464	£99,331
10	£86,669	£81,556
15	£63,032	£60,667
20	£41,147	£40,072
25	£22,896	£22,565
30	£7,750	£7,750

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	£261,432	£234,100
3	£245,510	£220,974
5	£225,399	£205,278
10	£175,995	£166,133
15	£125,313	£120,952
20	£78,709	£76,837
25	£39,900	£39,391
30	£7,750	£7,750

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	£125,324	£119,499	£67,276	£65,694	£167,125	£161,933	£115,801	£98,949
3	£114,081	£109,122	£63,562	£62,144	£149,152	£144,840	£105,963	£91,451
5	£103,390	£99,206	£59,810	£58,550	£132,547	£128,999	£96,531	£84,149
10	£78,922	£76,320	£50,235	£49,340	£96,404	£94,331	£74,643	£66,722
15	£57,416	£55,955	£40,321	£39,746	£66,884	£65,790	£55,005	£50,427
20	£38,565	£37,877	£29,994	£29,682	£42,866	£42,382	£37,425	£35,205
25	£22,093	£21,837	£19,167	£19,052	£23,415	£23,270	£21,728	£20,998
30	£7,750	£7,750	£7,750	£7,750	£7,750	£7,750	£7,750	£7,750

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	£261,907	£250,291	£144,525	£141,263	£344,536	£334,335	£242,901	£209,055
3	£237,553	£227,724	£136,047	£133,142	£306,457	£298,037	£221,451	£192,493
5	£214,400	£206,166	£127,474	£124,911	£271,291	£264,409	£200,894	£176,364
10	£161,441	£156,438	£105,556	£103,781	£194,798	£190,864	£153,207	£137,880
15	£114,933	£112,220	£82,813	£81,714	£132,394	£130,386	£110,454	£101,908
20	£74,208	£73,004	£59,065	£58,508	£81,691	£80,852	£72,214	£68,313
25	£38,662	£38,323	£34,117	£33,936	£40,697	£40,475	£38,098	£36,968
30	£7,750	£7,750	£7,750	£7,750	£7,750	£7,750	£7,750	£7,750

Source: Hymans Robertson using Fidelity costs and charges

The assumptions used in these calculations were:

- The opening DC pot size is £7,750, which was the average pot size for members in March 2019;
- A contribution in current day terms of either 4% employee and 5% employer or 8% employee and 12% employer. For a member with a salary of £28,500, which was the average salary for members at March 2019, this is equivalent to contributions of £2,565 p.a. or £5,700 p.a. respectively.
- The gross investment return for each fund above was:

Fund	Nominal return % p.a.
Equities	6.25%
Blended Assets	4.00%
Cash	0.25%
Property	4.50%

- 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; and
- The assumptions used are in line with those used for members' benefit statements.

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 be 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; and
- Comply with the Technical Actuarial Standards (TAS) 100: Principles for Technical Actuarial Work.