Annual statement regarding governance of the DC Section of the Nestlé UK Pension Fund (the "Fund")

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee of the Nestlé UK Pension Fund ("the Trustee") to prepare an annual statement regarding governance and include this in the annual Trustee report and accounts. The governance requirements apply to all defined contribution ("DC") pension arrangements and aim to help members achieve a good outcome from their pension savings.

This statement issued by the Trustee covers the period from 1 January 2023 to 31 December 2023 and is signed on behalf of the Trustee by the Chair.

This statement covers governance and charge disclosures in relation to the following:

1. The Fund's investment strategy, including the Default Option
2. Net investment returns
    i. Default Option
    ii. Self-select funds
    iii. Legacy Additional Voluntary Contributions
3. Member borne charges and transaction costs
    i. Default Option
    ii. Self-select funds
    iii. Legacy Additional Voluntary Contributions
    iv. Illustrations of the cumulative effect of these costs and charges
4. Value for Members assessment
5. Processing of core financial transactions
6. Trustee knowledge and understanding

1. The Fund's investment strategy, including the Default Option

The Trustee is required to design a default arrangement in members' interests and keep it under review. The Trustee needs to set out the aims and objectives of the default arrangement and take account of the level of costs and the risk profile that are appropriate for the Fund's membership.

The Fund is used as a qualifying scheme for auto-enrolment purposes. Qualifying schemes are required to have a default investment option in place for members who do not make an active investment choice.

The Default Option

The Trustee is responsible for the Fund's investment governance, which includes setting and monitoring the investment strategy for the Fund's Default Option, the Lifetime Pathway. The Lifetime Pathway is primarily provided for members who join the Fund and do not choose an investment option for their contributions and are looking to take their retirement savings as cash.

The Lifetime Pathway initially invests more in assets with higher growth potential (and therefore, higher expected levels of volatility), such as equities. As members get closer to their target retirement age, it then gradually shifts into a more diversified range of assets with the aim of reducing the overall level of fluctuations in members' fund values. In the final years prior to a member's retirement age, it gradually shifts into a 100% cash investment.

The Lifetime Pathway is composed of three phases as follows:

- Growth Phase (15+ years from retirement) – where members invest in assets which are expected, over the long-term, to deliver strong returns relative to inflation.
- Consolidation Phase (5 – 15 years from retirement) – members' savings are gradually transitioned into a diversified mix of assets in order to deliver good returns over the long-term relative to inflation, while seeking to reduce the level of fluctuations in members' fund values (compared to the Growth Phase).
- Pre-Retirement Phase (last 5 years before retirement) – members' assets are increasingly invested in cash which is expected to help mitigate fluctuations in the sizes of members' fund values whilst also aligning with the way most members are expected to take their benefits in the near-term.

Statement of Investment Principles

Details of the objectives and the Trustee's policies regarding the Default Option can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Fund's SIP is attached to this Statement and can also be found here.

The Trustee's overall objective for the Default Option 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 for the majority of members who have not made their own investment choice.

The Trustee believes that it is in the best interests of the majority of members to offer a Default Option 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.

Investment strategy review

The Defined Contribution Committee ("DCC"), with support from its investment advisor, undertook a review of the Fund's investments during the period, including formally reviewing the Default Option, the Lifetime Pathway. The review concluded on 14 November 2023 and considered the aims and objectives of the Default Option as stated in the DC SIP.

In reviewing the Lifetime Pathway, the DCC considered the Fund's membership profile, the needs of members, how members access their benefits as well as the expected member outcomes at retirement.

Following the review, the DCC agreed to retain the cash target at retirement of the Lifetime Pathway but decided to make some changes to the glidepath and the component funds (Growth, Equities, Blended Assets and Pre-Retirement to Cash). These changes are being implemented in phases, the first of which was completed in January 2024. The next phase of changes is due to take place in 2025.

The changes made in January 2024 include:

- **Equities:** The DCC replaced the existing emerging markets allocation with an active emerging markets mandate, whilst also reducing the allocation to emerging markets from 14% to 10%. The developed market allocation was subsequently increased from 86% to 90%. The DCC believe that an allocation to emerging markets can, alongside a developed market equity allocation, enhance the investment opportunity set and improve diversification, and that active management in this space offers a better potential risk/return profile.
- **Blended Assets:** The DCC changed the strategic asset allocation of the fund as well as the underlying funds used within Blended Assets. This was to improve the likelihood of the fund meeting its future return objective and therefore support better member outcomes. This included increasing the allocation to global equities from 15% to 45%; removing the allocation to multi-asset funds and index-linked gilts (which had dragged on returns and for the former, no longer presented a high conviction investment approach); increasing the credit allocation and introducing a new credit investment manager to improve sector and manager diversification; and adding a 10% allocation to property to further improve diversification.
- **Pre Retirement to Cash:** The underlying cash fund used within the Pre Retirement to Cash fund was replaced with an environmentally aware strategy which has an explicit commitment to take Environmental, Social and Governance ("ESG") factors into account when assessing and investing with counterparties.
- **Growth:** The Growth fund is used within the Growth Phase of the Lifetime Pathway and has historically replicated a 70/30 combination of the Equities and Blended Assets funds. As part of the 2023 strategy review, the DCC decided that the Growth fund should fully mirror the Equities fund in order to increase the growth potential of members savings whilst they are still many years away from retirement. However, due to administration complexities, this change cannot fully take place until 2025. Therefore, the DCC agreed to implement an interim solution whereby the Growth fund will still broadly mirror a 70/30 combination of the Equities and Blended Assets funds (albeit based on the new allocations set out above) with the exception of the allocation to property within the Blended Assets fund. This decision was made to reduce transaction costs for members.

The changes outlined above are expected to improve retirement outcomes for members by increasing expected returns as well as better risk management (including the management of ESG risks). The changes agreed are believed to be in line with the objectives of the Default Option as well as the Trustee's wider investment beliefs. This includes the Trustee's responsible investment beliefs and Net Zero ambition.

In planning the January 2024 investment changes, expected transition costs were received from Fidelity, who are the Fund's platform provider, and it was concluded that the costs were reasonable. Further risk reduction measures included monitoring investment markets, making a final a go/no-go decision prior to the transition and putting protections in place (e.g., pre-funding) to limit out of market exposure for members.

The second phase of changes are expected to be implemented in 2025 following the transfer of administration services to Mantle.

The Trustee undertakes a formal review of the Default Option every three years, and the next investment strategy review is due to commence in February 2026.

Performance Monitoring

Performance of the Default Option and the component funds used within it are regularly monitored (on at least a quarterly basis) between each strategic review to ensure they are delivering as expected, in line with the objectives outlined in the SIP.

The Trustee has in place performance monitoring metrics that bring any underperforming funds to the attention of the Trustee. Performance of the funds is reviewed against benchmarks and, where relevant, targets, that have been agreed with the investment managers. The Trustee also reviews (again on a quarterly basis) the volatility and investment returns experienced by members invested in the Default Option against agreed thresholds and targets.

The DCC reviewed these thresholds and targets over the year and decided to make some changes:

- Targets now apply to component funds within the Lifetime Pathway rather than phases;
- A single return target has been set for each fund (rather than a range); and
- A single volatility threshold has been set (rather than a risk target range).

The new approach allows for simpler and more focussed Trustee monitoring and more clearly highlights when action may be necessary to ensure the Default Option delivers in line with its objectives. More detail on these targets can be found in the DC Investment Implementation Document ("IID") found here.

Over the year, the Trustee reviewed the performance of the Default Option against set benchmarks, broad market comparators and inflation levels. The reviews concluded that the Default Option was performing broadly as expected within a difficult market environment, but that enhancements could be made to the underlying fund allocation to further improve the risk and return profile and expand the investment opportunity set in line with the objectives outlined in the SIP. These enhancements formed part of the changes agreed by the DCC as part of the 2023 investment strategy review.

Default Option asset allocation

The Trustee is required to disclose the full asset allocations of investments for the Default Option within specified asset classes defined by the Pensions Regulator. The table below shows the percentage of assets allocated within Lifetime Pathway at varying ages as at 31 December 2023.

The specified asset classes are shown in the table below.

	Year end asset allocation over year to 31 December 2023 (%)			
Asset class	25 years old	45 years old	55 years old	66 years old *(Normal Retirement Age*)*
Cash	**1.4**	**1.4**	**4.0**	**100.0**
Bonds	**16.9**	**16.9**	**48.4**	**0.0**
Corporate bonds	*8.6*	*8.6*	*24.8*	*0.0*
Fixed interest government bonds	*5.2*	*5.2*	*15.0*	*0.0*
Index-linked government bonds	*1.0*	*1.0*	*2.9*	*0.0*
Other bonds[1]	*2.0*	*2.0*	*5.8*	*0.0*
Listed equities	**79.1**	**79.1**	**40.1**	**0.0**
UK equities	*2.1*	*2.1*	*0.8*	*0.0*
Developed market equities (excluding UK)	*66.1*	*66.1*	*34.4*	*0.0*
Emerging markets	*10.8*	*10.8*	*4.9*	*0.0*
Private equity	**0.0**	**0.0**	0.0	0.0
Venture capital	*0.0*	*0.0*	*0.0*	*0.0*
Growth equity	*0.0*	*0.0*	*0.0*	*0.0*
Infrastructure	**0.0**	**0.0**	**0.0**	**0.0**
Property	**0.0**	**0.0**	**0.0**	**0.0**
Private debt	**0.3**	**0.3**	**0.9**	**0.0**
Other[2]	**2.6**	**2.6**	**7.5**	**0.0**

Source: Underlying managers at 31 December 2023. Totals may not sum due to rounding. *Normal Retirement Age within the Fund aligns with State Pension Age which is different depending on each members current age. State Pension Age for those retiring on 31 December 2023 is age 66.

1. Includes thematic bonds, high yield debt and emerging market debt.
2. Includes alternatives such as commodities.

2. Net investment returns

The Trustee is required to report on net investment returns for each default arrangement and for each non-default fund which scheme members were invested in during the scheme year. Net investment return refers to the investment returns on funds minus all member-borne transaction costs and charges.

The net investment returns have been prepared having regard to statutory guidance and cover the period to 31 December 2023.

It is important to note that past performance is not a guarantee of future performance.

(i) Default Option

Lifetime Pathway Performance to 31 December 2023	Annualised net returns (% p.a.)	
Age of member at start of investment reporting period	1 year	5 years
25	11.9	8.8
45	11.9	8.8
55	7.3	4.1

Source: Underlying managers and Fidelity as at 31 December 2023.

(ii) Self-select investment funds

In addition to the Lifetime Pathway, members also have the option to invest in 10 self-select funds.

Performance to 31 December 2023	Annualised net returns (% p.a.)	
Fund name	1 year	5 years
Equities	13.7	11.6
Blended Assets	7.3	2.2
Pre-Retirement to Cash	4.5	1.2
Ethical Growth	12.9	8.7
Ethical Consolidation	5.7	1.1
Pre-retirement to Annuity	7.3	-2.1
Cash	4.5	1.2
Corporate Bond	9.7	1.4
Property	0.4	3.4
Shariah Fund*	27.3	-

Source: Fidelity as at 31 December 2023. *Shariah Fund was made available to Fund members in February 2023, 1 year performance for this Fund has been provided for information only and has been provided by the Fund manager.

(iii) Legacy Additional Voluntary Contributions

A small amount of legacy AVC assets remain within the Standard Life AVC policy. These arrangements are closed to new contributions and were only available to members of the Defined Benefit (DB) Section of the Fund.

Performance to 31 December 2023	Annualised net returns (% p.a.)	
Fund name	1 year	5 years
Standard Life With Profits One	9.4	5.0
Standard Life With Profits One 2006	9.4	5.0

Source: Standard Life as at 31 December 2023

The Standard Life With Profits Funds have unique features including an element of smoothing of returns. The underlying returns generated by the asset allocation shown above are not applied to member accounts but instead members receive an annual bonus rate which is applied throughout the year. This feature can be beneficial during periods of market stress where bonus rates are often above the underlying returns. However, during a market rally, bonus rates often fall below the underlying returns. This feature helps to provide more consistent returns regardless of the volatility of the underlying assets in the With Profits Funds. There are no guarantees associated with either of the Standard Life With Profits Funds, however once the annual bonus rate is announced, it cannot be removed. Terminal bonuses, which are subject to change at any time, can also be payable as part of the With Profits Funds.

The annual bonus rates announced (and that cannot be removed) for each of the With Profits Funds are set out below. Bonus rates are applied on 31 January each year. The previous five years of bonus rates have been annualised to make comparison against underlying asset returns shown above easier.

With Profits Funds Bonus Rates	**Bonus Rates Announced (% p.a.)**	
Fund name	1 year	5 years
Standard Life With Profits One	1.8	1.0
Standard Life With Profits One 2006	1.8	1.0

Source: Standard Life as at 31 December 2023

3. Member Borne Charges and Transaction costs

The Trustee should regularly monitor the level of charges borne by members through the investment funds. These charges comprise:

- **Charges: these are explicit, and represent the costs associated with operating and managing an investment fund. They can be identified as a Total Expense Ratio (TER), or as an Annual Management Charge (AMC), which is a component of the TER;**
- **Transaction costs: these are not explicit, and are incurred when the Fund's fund manager buys and sells assets within investment funds but are exclusive of any costs incurred when members invest in or sell out of funds.**

The Trustee is also required to confirm that the total costs and charges paid by any member in the default arrangement have not exceeded 0.75% p,a, (the charge cap) and produce an illustration of the cumulative effect of the overall costs and charges on members' retirement fund values as required by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.

The Trustee has set out the costs and charges that are incurred by members, rather than the employer, over the Statement year in respect of each investment fund available to members. These comprise the Total Expense Ratio and insofar as we were able to, transaction costs. There are no performance fees for investment funds in the default arrangement.

The charges have been supplied by Fidelity and Standard Life. We note that Fidelity has not been able to provide all the transaction costs as at 31 December 2023 due to a time lag of data being provided by the underlying managers. Where this is the case, we have used the latest available data. The Trustee, along with their investment adviser, have spoken to and emailed Fidelity on multiple occasions to obtain the outstanding information and will continue to liaise with them until all information is received.

Where the transaction costs provided were negative, these have been set to zero by the Trustee in line with FCA guidance.

Default Option – the Lifetime Pathway
The Lifetime Pathway has been set up as a lifestyle arrangement which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This is illustrated in the chart below.

Chart 1: The Lifetime Pathway (the Default Option)

The TER paid by members for investing in the Lifetime Pathway over the year depends on their term to retirement, as shown in the line chart below. The TER ranged from 0.14% p.a. to 0.39% p.a., which is within the 0.75% p.a. charge cap for schemes that are used for auto-enrolling their employees.

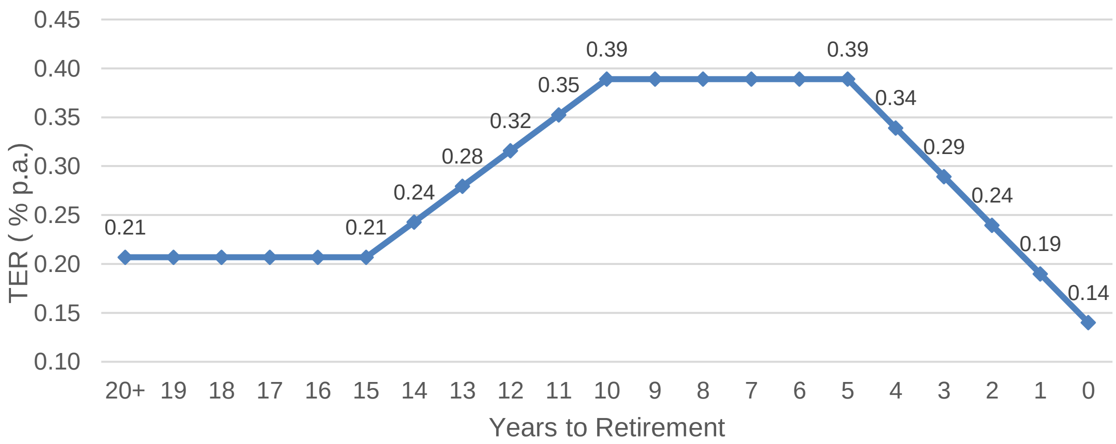
Note: due to the investment changes made in January 2024, the TERs paid by members will be different for 2025. See the Appendix for further information.

Transaction costs ranged between 0.08% p.a. and 0.22% p.a., with the total cost associated with the Lifetime Pathway between 0.22% p.a. and 0.61% p.a.

Default Option	TER (% p.a.)	Transaction costs (% p.a.)	Total costs (% p.a.)
Lifetime Pathway	0.14 – 0.39	0.08 – 0.22	0.22 – 0.61

Source: Fidelity. TERs as at 31 December 2023. Transaction costs are at a mix of 30 September 2023 and 31 December 2023.

Chart 2: Lifetime Pathway TER



(i) Self-select investment funds

In addition to the Lifetime Pathway members also have the option to invest in ten individual funds.

The TERs and transaction costs for each of these are shown in the following tables:

Self-Select Funds	TER (% p.a.)	Transaction costs (% p.a.)	Total costs (% p.a.)
Equities	0.13	0.08	0.21
Blended Assets	0.39	0.22	0.61
Pre-Retirement to Cash	0.14	0.08	0.22
Ethical Growth	0.21	0.04	0.25
Ethical Consolidation	0.13	0.08	0.21
Pre-Retirement to Annuity	0.14	0.00	0.14
Cash	0.14	0.08	0.22
Corporate Bond	0.40	0.00	0.40
Property	0.46	0.00	0.46
Shariah	0.35	0.00	0.35

Source: Fidelity. TERs as at 31 December 2023. Transaction costs are at a mix of 30 September 2023 and 31 December 2023.

(ii) Legacy Additional Voluntary contributions

The legacy AVC assets remaining with Standard Life are closed to new contributions. These arrangements were only available to members of the DB Section of the Fund.

The TERs and transaction costs associated with the Standard Life AVC policy are shown below.

Legacy AVC Funds	TER (% p.a.)	Transaction costs (% p.a.)	Total costs (% p.a.)
Standard Life With Profits One	1.00	0.04	1.04
Standard Life With Profits One 2006	1.05	0.04	1.09

Source: Standard Life. TERs as at 31 December 2023. Transaction costs as at 31 December 2023.

(iii) Illustrations of the cumulative effect of costs and charges

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of costs by the trustee and managers of a relevant Fund. These changes are intended to improve transparency on costs.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee has provided three illustrations of their cumulative effect on the value of typical Fund members' savings over the period to their retirement.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on a number of assumptions about the future which are set out below.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Fund they are not a substitute for the individual and personalised illustrations which are provided to members in their annual Benefit Statements.

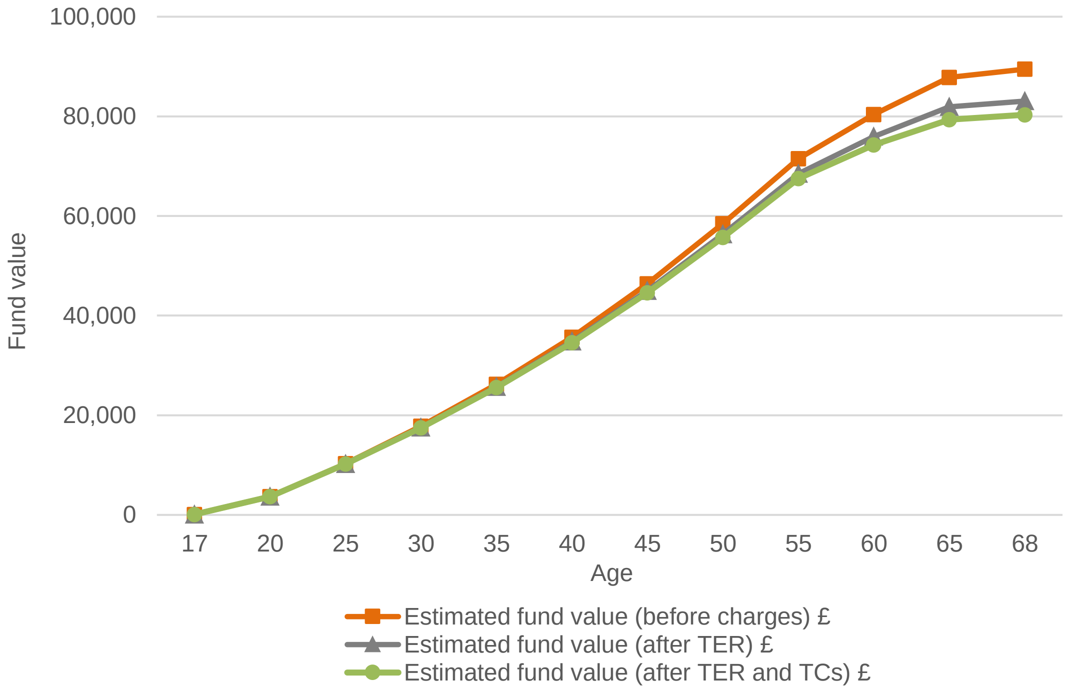
Each illustration, A, B and C is shown for a different type of member invested in the Lifetime Pathway, which is the Default Option. Illustrations for the Default Option are shown as a chart and a table as follows:

- Each chart represents investment in the Default Option, the Lifetime Pathway.
  - The charts show a projection of the member's retirement savings at retirement age, with and without costs and charges applied.
- As the projected retirement savings are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures with other investments in the tables.
  - For comparison purposes, we also show the projected retirement savings if the typical member were invested in the fund within the self-select range offered by the Fund which attracts the lowest charges, the Pre-Retirement to Annuity Fund and the self-select fund which attracts the highest charges, the Blended Assets Fund.

All projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future expected inflation.

Illustration A: is based on a Fund member who has 51 years to go until their retirement at age 68. The member has a current salary of £13,000 with future contributions of 9% of salary. The member has a starting fund value of £100.

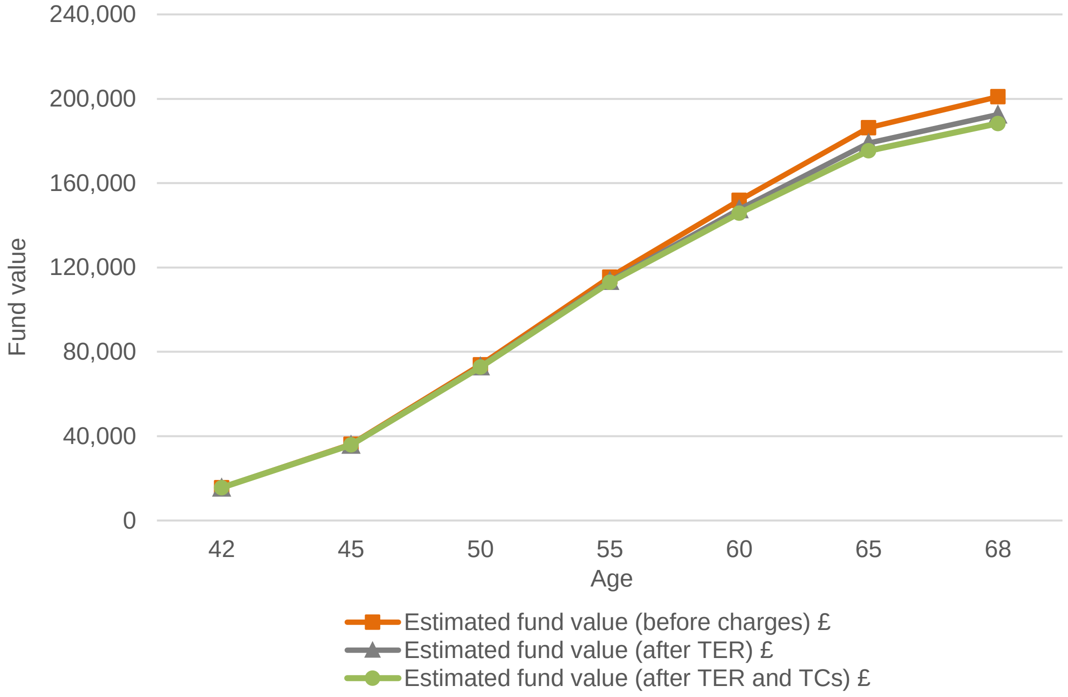
Chart 3: Youngest Active Member - Lifetime Pathway



Projected Pension Account in today's money									
	Lifetime Pathway *(Default Option)*			Pre-Retirement to Annuity Fund *(Lowest charging Fund)*			Blended Assets *(Highest Charging Fund)*		
Age	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£	£	£	£
17	100	100	0	100	100	0	100	100	0
20	3,700	3,690	10	3,700	3,690	10	3,590	3,560	30
25	10,320	10,210	110	10,320	10,260	60	9,530	9,300	230
30	17,780	17,460	320	17,780	17,610	170	15,620	15,000	620
35	26,200	25,550	650	26,200	25,850	350	21,850	20,670	1,180
40	35,690	34,540	1,150	35,690	35,070	620	28,240	26,300	1,940
45	46,400	44,560	1,840	46,400	45,410	990	34,780	31,900	2,880
50	58,480	55,720	2,760	58,480	56,990	1,490	41,490	37,460	4,030
55	71,510	67,520	3,990	72,110	69,960	2,150	48,360	42,990	5,370
60	80,350	74,260	6,090	87,490	84,480	3,010	55,400	48,490	6,910
65	87,840	79,330	8,510	104,830	100,760	4,070	62,610	53,950	8,660
68	89,470	80,320	9,150	116,290	111,450	4,840	67,020	57,210	9,810

Illustration B: is based on a Fund member who has 26 years to go until their retirement at age 68. The member has a current salary of £42,000 with future contributions of 15% of salary. The member has a starting fund value of £15,600.

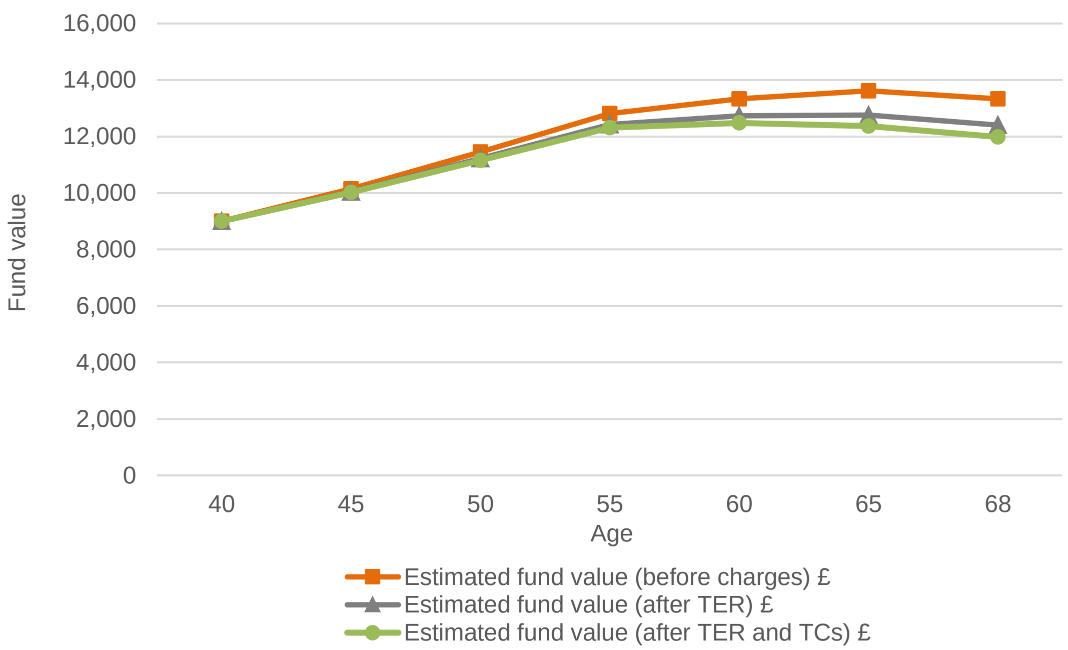
Chart 4: Typical Active Member - Lifetime Pathway



Projected Pension Account in today's money									
Age	Lifetime Pathway *(Default Option)*			Pre-Retirement to Annuity Fund *(Lowest charging Fund)*			Blended Assets Fund *(Highest Charging Fund)*		
	Before charges £	After charges £	Effect of charges £	Before charges £	After charges £	Effect of charges £	Before charges £	After charges £	Effect of charges £
42	15,600	15,600	0	15,600	15,600	0	15,600	15,600	0
45	36,130	35,920	210	36,130	36,020	110	34,630	34,180	450
50	73,820	72,840	980	73,820	73,300	520	66,980	64,980	2,000
55	115,390	112,930	2,460	116,340	115,060	1,280	100,130	95,600	4,530
60	151,780	145,700	6,080	164,300	161,840	2,460	134,090	126,020	8,070
65	186,300	175,300	11,000	218,400	214,240	4,160	168,890	156,260	12,630
68	200,940	188,310	12,630	254,130	248,660	5,470	190,170	174,310	15,860

Illustration C: is based on a deferred member (a member who is no longer making contributions) who has 28 years to go until their retirement at age 68. The member has a starting fund value of £9,000.

Chart 5: Typical Deferred Member - Lifetime Pathway



Projected Pension Account in today's money									
Age	**Lifetime Pathway** ***(Default Option)***			**Pre-Retirement to Annuity Fund** ***(Lowest charging Fund)***			**Blended Assets Fund** ***(Highest Charging Fund)***		
	Before charges	**After charges**	**Effect of charges**	**Before charges**	**After charges**	**Effect of charges**	**Before charges**	**After charges**	**Effect of charges**
	£	£	£	£	£	£	£	£	£
40	9,000	9,000	0	9,000	9,000	0	9,000	9,000	0
45	10,150	10,020	130	10,150	10,080	70	9,220	8,940	280
50	11,450	11,160	290	11,450	11,290	160	9,450	8,890	560
55	12,810	12,310	500	12,920	12,650	270	9,680	8,830	850
60	13,340	12,480	860	14,570	14,170	400	9,920	8,780	1,140
65	13,620	12,370	1,250	16,440	15,880	560	10,160	8,730	1,430
68	13,340	11,990	1,350	17,670	17,000	670	10,310	8,690	1,620

Members are advised to consider both the level of costs and charges and the expected return on investments (i.e., the risk profile of the strategy) in making investment decisions.

Assumptions and data for illustrations:

The following assumptions have been made for the purposes of the above illustrations:

- *Annual salary growth and inflation is assumed to be 2.5% per annum*
- *The starting fund values and future contributions used in the projections is representative of the average for the Fund*
- *The projected annual returns on assets (gross of fees) are:*
    - *Equities 5.0% p.a.*
    - *Blended Assets 3.0% p.a.*
    - *Growth 5.0% p.a.*
    - *Pre-Retirement to Cash 1.0% p.a.*
    - *Pre-Retirement to Annuity 5.0% p.a.*

  These returns align with the expected returns used within the Statutory Money Purchase Illustrations for the 2023 benefit statements.
- *For the Lifetime Pathway the projection takes into account the changing proportion invested in the different underlying funds. Growth, Equities, Blended Assets and Pre-Retirement to Cash are underlying funds of Lifetime Pathway.*
- *The transaction costs have been averaged over a 5 year period in line with statutory guidance to reduce the level of volatility, and a floor of 0% pa has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.*
- *Member data used is as at 31 March 2023.*

4. Value for Members assessment

The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by members and the extent to which those charges and costs represent good value for money for members.

There is no legal definition of "good value" or the process of determining this for Fund members. Therefore, working in conjunction with our investment advisors, the Trustee has developed a cost-benefit analysis framework in order to make an assessment as to whether our members receive good value from the Fund relative to the costs and charges they pay.

The costs have been identified as TER, Transaction Costs and are set out in Section 3 of this statement. The charges for the DC Section investment options are lower than those used for similar schemes when benchmarked against market data.

The Trustee has considered the benefits of membership under the following five categories: governance, investments, administration, member communications and retirement support. Benchmarking relative to other pension arrangements or industry best practice guidelines is also undertaken.

The Trustee's beliefs have formed the basis of the analyses of the benefits of membership. These are set out below along with the main highlights of their assessment.

<u>Governance</u>

The Trustee believes in having robust processes and structures in place to support effective management of risks and ensure members interests are protected, increasing the likelihood of good outcomes for members

- The Trustee has suitable governance monitoring in place and regularly reviews and updates its governance processes and procedures to make sure these align with industry best practice.

- Core financial transactions and other key governance metrics are monitored quarterly, and DC related risks are captured in, and monitored through the risk register. Investment performance of the DC Section funds is reported on and reviewed quarterly and the legacy AVC funds are reviewed regularly.
- The Trustee board has delegated specific duties to several sub-committees:
  - The DCC, which meets at least quarterly and focuses its time on DC matters;
  - The Governance and Compliance Committee ("GCC"), which meets at least quarterly to discuss all administration and governance aspects, including DC which is a standing item; and
  - Various Working groups that are set up as and when required to progress specific projects (e.g. the former TCFD Working Group).

  Any discussion and decision making that takes place at a sub-committee is reported back at the main Trustee Board meeting.
- The Nestlé Investment Team also attend meetings to support the Trustee with any decision-making, alongside Trustee advisors.

Investments

The Trustee believes that a well-designed investment portfolio that is subject to regular performance monitoring and assessment of suitability for the membership will make a large contribution to the delivery of good member outcomes.

- The Fund offers a lifestyle arrangement – the Lifetime Pathway – as the Default Option, which targets taking retirement savings as cash upon reaching retirement. The Trustee believes this is in line with how the majority of members will look to take their DC Section assets in the near-term.
- A range of self-select funds is also available to members as an alternative to the lifestyle arrangement. The Trustee regularly reviews the self-select range to ensure it remains suitable for meeting the different risk and return objectives that members may have.
- The investment options available, including the Lifetime Pathway and the self-select funds, have been designed following advice from the Trustee's investment advisor and with the specific needs of the Fund's members in mind.
- The DCC reviews the performance of the Lifetime Pathway and self-select funds against their respective aims and objectives on a quarterly basis, based on reports received from their investment advisor and the Nestlé Investment Team. This review includes analysis of fund performance against benchmarks and/or targets agreed with the investment manager, as well as any bespoke thresholds and targets set by the DCC.
- An in-depth review of the investment options is undertaken at least every three years to make sure they remain suitable for the Fund's members.
- The DCC also receive more frequent reporting during times of market stress and volatility, for example, following the former UK Chancellor's "mini-budget".

Administration

The Trustee believes that good administration and record-keeping play a crucial role in ensuring that scheme members receive the retirement income due to them. In addition, that the type and quality of service experienced by members has a bearing on the level of member engagement.

- The Fund has an in-house administration team, Nestlé Pensions.
- The Trustee obtains information to assess the member experience through key performance indicators and regular administration meetings with Nestlé Pensions, to monitor standards of administration and record keeping for the DC section of the Fund. As described in Section 5 of this Statement (see below), the Trustee is comfortable with the quality and efficiency of the administration processes.
- The Trustee receives confirmation from Nestlé Pensions of the current position with regards to common and conditional data checks and any amendments which may be required to rectify gaps in data. Common data checks are carried out quarterly and results reported back to the Trustee. Conditional data checks are carried out regularly.
- The Fund's internal controls are monitored in regular administration meetings with Nestlé Pensions.

Member communications

The Trustee believes that effective member communications and delivery of the right support and tools helps members understand and improve their retirement outcomes.

- Members of the Fund have online access to their pension and information via the Fund website. A member helpline is available, and the member experience is monitored through monthly call statistics and complaints monitoring.
- The Trustee, Nestlé Investment Team and investment advisor works with Nestlé Pensions to design, develop and issue communications. The Fund provides members with clear, regular communications, benefit statements and 'at retirement' communications.
- The Trustee also provides members with an annual newsletter as well as an annual benefit statement detailing information about the Fund and wider pensions information.
- Members have access to modelling tools and supporting information through the Fund website. The tools allow for members to set retirement goals, access contribution requirements and get an indication of income in retirement.

Retirement support

The Trustee believes it is important to have retirement processes that enable members to make informed decisions and select appropriate option(s) at retirement.

- Members are provided with information on approaching retirement including a personalised illustration.
- Members are also provided with financial planning tools via the website to assist with their pension planning.

- At retirement support and guidance is currently provided to members via Origen Financial Services. If members have their own Independent Financial Advisor in place, Nestlé will also meet some of this cost.
- Nestlé also provides members with access to annuity broking via Hargreaves Lansdown. This is an open market service which compares different annuity options available and also supports members in the selection and purchasing of an annuity should they choose to do so.

In recognition of the above, the Trustee assessment concluded that the charges and transaction costs borne by Fund members represents good value for members relative to the benefits of Fund membership.

Note in relation to legacy AVCs held with Standard Life

The DCC carried out a review of the Standard Life legacy AVC arrangement in February 2023. While there are features of the With Profits Funds held in the arrangement that are beneficial to members, there are no guaranteed returns, and both With Profits Funds have a relatively high annual charge. The DCC plan to carry out further quantitative analysis to assess the benefits of transferring the assets currently held in the legacy AVC funds into the main DC Section held with Fidelity. This follow-up review is scheduled for 2025, following the transfer of administration services to Mantle.

Overall conclusion of the Value for Members assessment

The Trustee's assessment concluded that the charges and transaction costs borne by Fund members represents good value for members relative to the benefits of Fund membership.

5. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. Core financial transactions include the investment of contributions, transfer of member funds into and out of the Fund, transfers between different investments within the Fund and payments to and in respect of members/beneficiaries.

The majority of the core financial transactions are undertaken on behalf of the Trustee by the Fund administrator, Nestlé Pensions. The Company is responsible for ensuring that contributions are paid to the Fund promptly and accurately. The timing of such payments is monitored by the Trustee from quarterly administration reports submitted by Nestlé Pensions.

In order to determine how well Nestlé Pensions is performing, the Trustee has service level agreements ("SLA") in place with Nestlé Pensions. These SLAs detail a number of key administration processes to be performed and the target timescale within which each of these processes needs to be completed. There are SLAs in place for all core financial transactions. Under the current SLA, Nestlé Pensions aims to accurately complete all activities within different time frames, depending on the criticality and complexity of the task. The agreement for time critical processes such as investment of monthly contributions is three working days from receipt, and the SLA target increases to 20 working days for more complex member enquiries such as transfer out settlements.

The Trustee has also reviewed the key processes adopted by the administrator and output in order to minimise the risks of inaccurate or late payment of core financial transactions. Key processes include:

- Provision of quarterly administration reports from Nestlé Pensions to the Trustee including information regarding: member statistics; payment schedules and contribution summary; service level analysis; Trustee discretions; member complaints; and any errors. This enables the Trustee to check core financial transactions and review processes relative to any member complaints made.
- The DC processing team performing a reconciliation of monthly contributions between the pension administration system and the platform provider, Fidelity. There is a strict review process for all core financial transactions, including checks for all investment and banking transactions prior to processing and authorised by separate individuals within Nestlé Pensions Accounts and the Member Services teams.
- The DC processing and accounts teams monitoring the DC bank account each day and reconciling the DC bank account each month. Ongoing staff training on the processing of core financial transactions, including the use of a training log to monitor progress of training against case types.

In addition, Nestlé Pensions meets with the GCC on a quarterly basis to discuss the administration of the Fund. These meetings provide an opportunity to discuss any issues that might arise.

The Trustee is satisfied that over the period:

- Nestlé Pensions were operating appropriate procedures, checks and controls and operating within the agreed SLA; over the 12 months to 31 December 2023, Nestlé Pensions met the SLA requirements with over 97% of activities completed within the service target levels;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Fund Year.

Standard Life legacy AVC arrangements

The Trustee has received statements from Standard Life on their business continuity and business resilience policy. Whilst the Trustee has not received specific information relating to core financial transactions from Standard Life, we have received their internal controls report. From the information received, the Trustee is satisfied that the processes and audit procedures in place ensure that all core financial transactions relating to the legacy AVC arrangement are processed in an accurate and timely manner.

6. Trustees' Knowledge and Understanding ("TKU")

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as Trustees properly.

The comments in this section relate to the Fund as a whole and not solely the DC Section.

During the Fund Year, the Trustee Board have ensured that they have:

- **Working knowledge of the trust deed and rules** – for example, by consulting the relevant documents regarding their specific application to the Fund as the need arises. 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 Board Directors have access to this;
- **Working knowledge of the current SIP through the ongoing conduct of Fund business**;
- **Working knowledge of all documents setting out the Trustee Board's current policies** - for example, the Trustee Board reviews its various policies as required and makes any updates when needed;
- **Sufficient knowledge and understanding of the law relating to pensions and trusts** – for example, 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 TKU requirements by undertaking individual training and completing an ongoing programme of training throughout the year as a full Trustee Board. 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. Training that is specific and tailored to the work of the Trustee Board and the decisions the Trustee Board will be making is provided as work is progressed and decisions are taken. Over the year, the DCC received training from their investment advisors and prospective investment managers on active emerging market investing and impact equity investing. The DCC has shared updates relating to its training with the whole Trustee Board; and
- **Sufficient knowledge and understanding of the relevant principles relating to the investment and governance of DC occupational schemes** – for example, over the course of the Fund Year, the full Trustee Board received training from its advisors on a range of topics relevant to DC benefits and DC governance, including Responsible Investing and ESG issues such as climate change. In addition, the Board looked at the implications of the introduction of the Regulator's General Code of Practice as well as planning for the 2023 Task Force on Climate Related Financial Disclosures ("TCFD") report which included a review of the Fund's climate related targets and metrics.

<u>TKU review</u>

In December 2019, a formal review of TKU was conducted and the results were shared with the Trustee Board. The review concluded that the Trustee Board had a history of taking a thorough approach to training and development, that the Board was already performing with a good degree of effectiveness, but there was still an opportunity to enhance and support the collective by improving knowledge sharing. As a result, the Trustee Board has placed a particular focus on Board effectiveness going forward. This is implemented and overseen through a Board effectiveness working group, through which the Trustee Board has embedded a culture of continuous review and improvement of TKU.

<u>Trustee Board effectiveness</u>

The Nestlé Pensions team has previously undertaken a review of the performance and effectiveness of the Trustee Board. The review concluded that the Board was working well but that Board effectiveness could be developed further, so a training plan was agreed and implemented with the Fund advisors to further enhance the Board's capabilities in this respect. In addition, a

Trustee Board Effectiveness Working Group has been established with a remit of reviewing the current processes and suggesting alterations where appropriate.

Following discussions by the Board Effectiveness Working Group, it was agreed that:

- There would continue to be a focus on the Trustee's "ways of working";
- There was significant support available from the advisors, including the Nestlé Investment Team; and
- Feedback from the Trustee would be requested in order to continually improve the ways of working.

Role of the DCC

In addition to the Trustee Board having an effective knowledge and understanding of the DC benefits, the Trustee Board has a sub-committee – the DCC - which is given a number of responsibilities in respect of defined contribution benefits provided by the Fund. The purpose of the DCC is to allow the Trustee Board to allocate resources effectively and so that where DC focus is valuable, a group that is dedicated to considering DC issues is available.

The Chair of the DCC reports to the Trustee Board on DC matters during the quarterly main Trustee Board meetings. This ensures that in addition to the specialist knowledge which is contained within the DCC, collectively the Trustee Board has good knowledge and oversight of the defined contributions aspects of the Fund.

Where necessary, and always in the event of strategic decisions, the DCC refers matters to the Trustee Board. This aligns with the Terms of Reference in place for the DCC.

Trustee Board Development Day

During the year a Trustee Board development day was run and covered the following areas:

- Ensuring that the Board was fit for purpose, particularly in a DC context;
- Why diversity and inclusion is relevant for the Fund; and
- Incorporating learnings from the sessions into the ongoing Trustee ways of working.

Advice obtained

Over the Fund Year, the Trustee Board received advice on investment matters from Aon and Redington, legal matters from Sackers and on other issues from other advisors as necessary. The Trustee Board's advisors attended Trustee 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 Board also had access to regular bulletins and newsletters from their advisors.

Planning meetings are also arranged for all full Trustee Board and DCC meetings. Representatives from Nestlé Pensions, Sackers (Trustee Board planning meetings) and Aon (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 Board's TKU, and effective decision making were provided at the right time.

Experience

The DCC is a well-resourced Committee with several Trustee Directors who have been members for many years. It is also important to ensure that the DCC evolves over time and expands the DC experience of the wider Trustee Board.

Changes were made to the DCC's membership over the year and one Member Nominated Trustee Director (who retired in August 2023) was replaced with a new Trustee Director.

All Trustee Directors on the DCC had specific training on DC matters during the year. This included sessions at meetings on 28 February 2023, 25 May 2023 and 14 November 2023. In addition, an update on the DC specific strategy day that took place on 8 November 2022 was given at the meeting on 26 September 2023.

Collectively, the Trustee Board benefits from the diverse set of skills brought by the individual Trustee Directors from their various professional backgrounds. In particular, the Trustee Board can draw upon individual professional experience in accountancy, HR and business which provides valuable insight from different perspectives. Additionally, the Chair of the Trustee Board and the Chair of the DCC is an Accredited Professional Trustee with wide ranging DC experience, including 10 years chairing one of the UK largest Authorised DC Master Trusts. The different skill sets brought by the individual Trustee Directors helps to provide for a strong and complementing composition of the Board.

In addition, there is an experienced Head of Investment and Risk who supports the Board and brings ideas on emerging market practice in relation to DC to the Trustee Board. There is also 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.

Training

All training undertaken during the Fund Year is recorded in the relevant training log. When new Trustee Directors are appointed, they are expected to complete the Trustee Toolkit within 6 months of appointment. Additional Fund-specific training is also made available to them.

As previously mentioned, the Chair of the Trustee Board is a professional Trustee. As part of professional practice standards, the Chair is required to undertake relevant ongoing training each year and to log this with his professional body and firm. It is intended that further work regarding Trustee Board effectiveness will continue to be undertaken and that regular reviews will be carried out going forwards.

Throughout the Fund Year, all Trustee Directors have been encouraged to raise issues (e.g., any knowledge gaps or areas where they would find additional training helpful) or suggestions and have easy access to the Chair in order to do this. This will continue on an on-going basis.

The Trustee Board considers that:

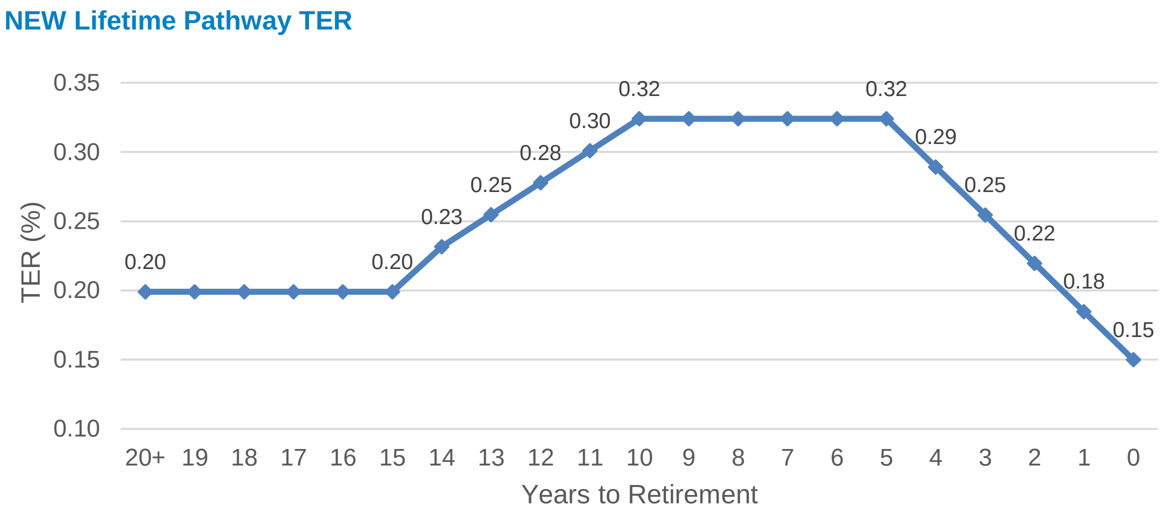
- The initial training programme in place for new Trustee Directors;
- The ongoing Trustee training and development initiatives described above and carried out over the course of the Trustee Directors' appointments;
- The evaluation of ongoing performance and effectiveness of the Trustee Board and the identification of training needs; and
- 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

enables the Trustee Board to properly exercise its function as Trustee of the Fund and to meet the requirements of sections 247 and 248 of the Pensions Act.

Signed on behalf of the Trustees of the Nestlé UK Pension Fund by the Chair of Trustee

Name	Steve Delo
Date	29 July 2024

Appendix 1 – Changes to costs and charges following January 2024 investment changes



Self-Select Funds	TER as at 31 December 2023 (% p.a.)	TER as at 29 February 2024 (% p.a.)
Equities	0.13	0.16
Blended Assets	0.39	0.32
Pre-Retirement to Cash	0.14	0.15
Ethical Growth	0.21	0.25
Ethical Consolidation	0.13	0.13
Pre-Retirement to Annuity	0.14	0.14
Cash	0.14	0.15
Corporate Bond	0.40	0.32
Property	0.46	0.46
Shariah	0.35	0.35