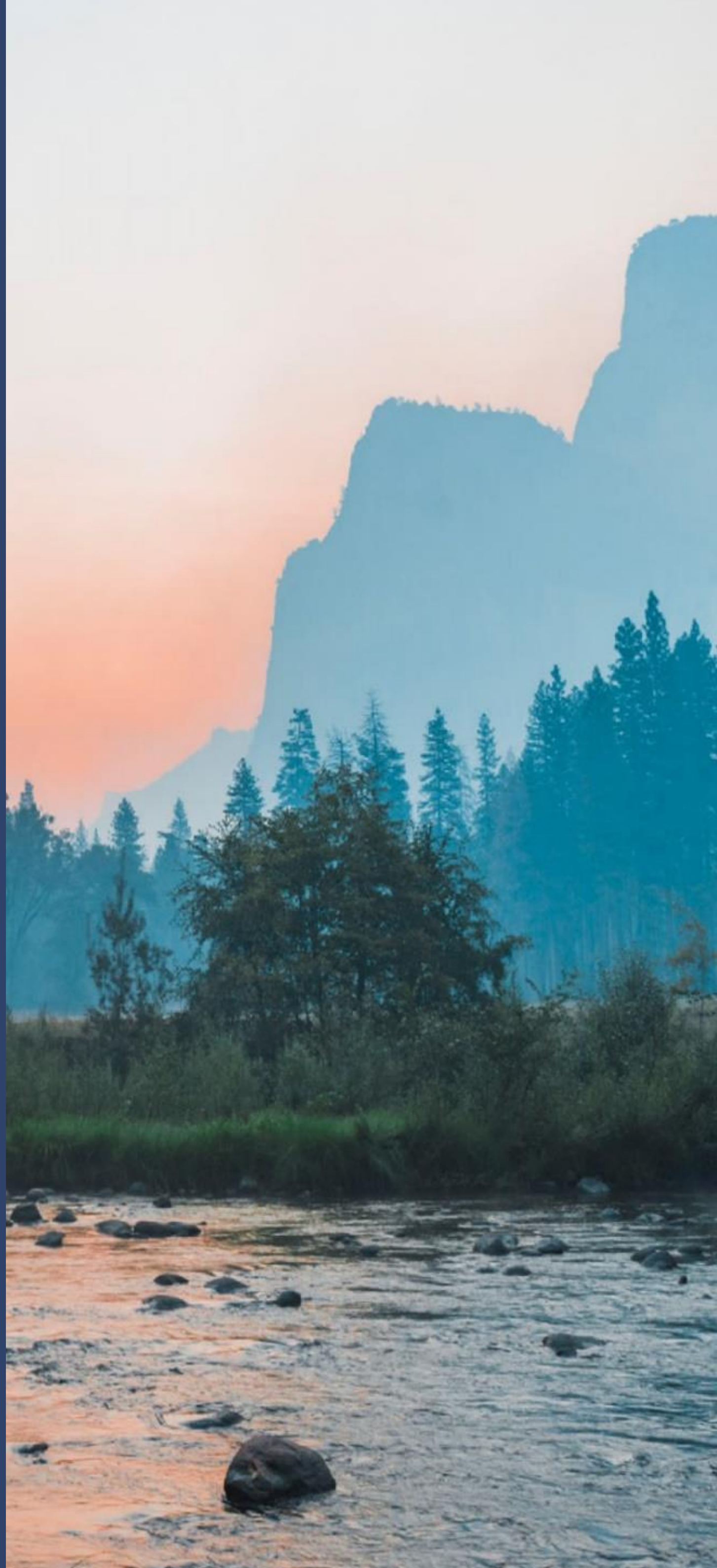
Addendum to the Statement of Investment Principles

For the Cereal Partners UK Pension Fund

Effective from: November 2023

This addendum to the Statement of Investment Principles ("SIP") for the Cereal partners UK Pension Fund (the "Fund") has been produced by the Trustee of the Fund. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Fund's investment arrangements.



Part 1:
Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the Fund. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Fund overall. Our investment powers are set out within the Fund's governing documentation.

1. Trustee

Our responsibilities include:

- setting the investment strategy, in consultation with the employer
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments
- putting effective governance arrangements in place and documenting these arrangements in a suitable form
- monitoring, reviewing, engaging with and replacing investment managers, investment advisers, actuary, and other service providers
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended)
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged
- reviewing the SIP and modifying it as necessary.

2. Platform provider

The investment platform provider, Legal & General Assurance (Pensions Management) Limited ("L&G"), will be responsible for:

- providing access to a range of funds managed by various investment managers
- providing us with regular information concerning the management and performance of the assets.

3. Investment managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation
- taking account of financially material considerations (including climate change, net zero alignment and other Environmental, Social and Governance ("ESG") considerations) as appropriate in managing the assets
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments
- providing regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken and progress on net zero alignment over time
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

4. Investment adviser

The investment adviser's responsibilities include:

- advising on how material changes within the Fund's benefits, membership, and funding position may affect the manner in which the assets should be invested

- advising on and monitoring liability hedging and collateral management
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations)
- supporting the Trustee in achieving the Fund's net zero ambition, including through manager selection, monitoring and engagement.
- assisting us with reviews of this SIP.

5. Fee structures

The provision of investment management and advisory services to the Fund results in a range of charges to be met, directly or indirectly, by deduction from the Fund's assets. We have agreed terms with the Fund's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers and platform provider receive fees calculated by reference to the market value of assets under management.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Fund, and we keep the fee structures under review.

6. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the Fund's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

7. Working with the sponsoring employers

When reviewing matters regarding the Fund's investment arrangements, such as the SIP, we seek to give due consideration to the employers' perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employers, we believe that better outcomes will generally be achieved if we work with the employers collaboratively.

Part 2:
Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the employer covenant and how this may change over time
- the agreed journey plan and employer contributions
- the Fund's long-term and shorter-term funding targets
- the Fund's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged
- the Fund's cash flow and target return requirements
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

Risk of inadequate returns

A key objective is that the assets produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type (eg equities), could materially adversely affect the Fund's assets. We believe that the Fund's assets are adequately diversified between different asset classes and within each asset class and the AVC options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Fund's investment arrangements.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Fund's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Credit risk

The Fund is subject to credit risk because it invests in bonds via pooled funds. This risk is managed by only investing in pooled funds that have a diversified exposure to different credit issuers, and only invest in bonds that are classified as "investment grade".

Currency risk

Whilst the majority of the currency exposure of the Fund's assets is to sterling, the Fund is subject to currency risk because some of the Fund's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that it diversifies the strategy and is appropriate.

Furthermore, we manage the amount of currency risk by investing in pooled funds that hedge some or all of their currency exposure, such as the hedged overseas equity index fund.

Interest rate and inflation risk

The Fund's assets are subject to interest rate and inflation risk because some of the Fund's assets are held in bond funds and Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the Fund's assets provide protection (hedges) part of the corresponding risks associated with the Fund's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and we monitor how this risk is being managed in practice. In line with our net zero ambition, we encourage our managers (where practical) to set credible net zero targets for the funds in which we invest and to align our investments with net zero greenhouse gas emissions by 2050 to help drive real world emissions reduction and reduce systemic risks relating to climate change. We monitor and engage with our managers on their progress towards net zero alignment.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately and monitor how these risks are being managed in practice.

Illiquidity/marketability risk

This is the risk that the Fund is unable to realise assets to meet benefit cash flows as they fall due, or that the Fund will become a forced seller of assets in order to meet benefit payments. We are aware of the Fund's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Fund's investments and by investing in income generating assets, where appropriate.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, LGIM makes use within its Matching Core Fund range of derivative and gilt repos contracts and this fund is used to match efficiently a portion of the Fund's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The Fund is invested in leveraged LDI arrangements to provide hedging protection against adverse changes in interest rates and inflation expectations. From time to time, depending on market movements, additional cash may need to be invested in the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the cash required to maintain the hedging protection is not available for use within the LDI portfolio within the required timeframe. A possible consequence of this risk materialising is that the Fund's liability hedging could be reduced, potentially leading to a worsening of the Fund's funding level.

To mitigate this risk, the Trustee has a leverage management plan in place, which is reviewed and updated periodically. This sets out clearly the assets directly available to support the Fund's LDI arrangements and the approach that is expected to be taken with regards to selling down any other assets to support the LDI arrangements. As part of this leverage management plan, the Trustee periodically monitors the impact of movement in interest rates and inflation expectations and how that compares to the change that can be supported by the assets invested in the LDI arrangements and those directly supporting those arrangements.

Valuation risk

Some of the Fund's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as property within the Inflation Opportunities Fund), prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as property.

We consider exposure to valuation risk in the context of the Fund's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Other non-investment risks

We recognise that there are other non-investment risks faced by the Fund. We take these into consideration as far as practical in setting the investment arrangements.

Examples include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, a sponsoring employer is unable to support the Fund as anticipated).

Both investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress against the funding target.

Part 3:
Investment manager arrangements

Details of the investment managers are set out below. The investments (other than those with M&G) are accessed via an investment platform with Legal & General.

Growth Portfolio

The Trustee has selected Legal & General, Ruffer and Baillie Gifford as the investment managers of the Growth Portfolio. Legal & General has been appointed to manage the Fund's allocation to equities. Ruffer and Baillie Gifford have been appointed to manage the Fund's allocation to diversified growth funds.

Legal & General

The Trustee's strategy is for the equity assets invested with Legal & General to be held in its low carbon global equity index tracking fund (split between the GBP-hedged and unhedged share classes). The benchmark is as follows:

Fund	Benchmark Allocation (%)	Range (%)	Benchmark Index
Low Carbon Transition Global Equity Index Fund	75.0	+/-5.0	Solactive L&G Low Carbon Transition Index
Low Carbon Transition Global Equity Index Fund (GBP-hedged)	25.0	+/-5.0	Solactive L&G Low Carbon Transition Index (GBP-Hedged)

The stated objective of the low carbon fund range is:

> "to produce a return consistent with the index Solactive L&G Low Carbon Transition Global Index. The index aims to provide exposure to developed and emerging equity markets while reducing carbon intensity by 70% at the outset on a de-carbonisation path to achieve net zero by 2050, whilst also significantly reducing the level of carbon reserves and improving green revenues through exposure to six underlying alternatively weighted indices."

Ruffer

The Fund invests in the Ruffer Absolute Return Fund.

Ruffer's investment objective is:

> "firstly to preserve the Client's capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable United Kingdom bank."

Baillie Gifford

The Fund invests in the Baillie Gifford Multi Asset Growth Fund.

Baillie Gifford's investment objective is to outperform the UK Base Rate by at least 3.5% pa (net of fees) over rolling five-year periods.

Bond Portfolio

The Trustee has selected Legal & General and M&G as the investment managers for the Fund's Bond Portfolio. The Bond Portfolio holds investments in UK government bonds, sterling investment grade corporate bonds, inflation-linked assets, interest rate swaps and inflation swaps, and other bond-like investments. These investments are intended to hedge broadly 87% of the Fund's exposure to changes in interest rate and inflation expectations on the long-term funding target basis (currently, gilts + 0.5% pa discount rate).

Legal & General

The Fund invests in the AAA-AA-A Corporate Bond – Over 15 year – Index Fund, the Buy & Maintain Credit Fund, the Matching Core LDI Fund range and the Sterling Liquidity Fund.

The benchmark for the AAA-AA-A Corporate Bond – Over 15 year – Index Fund is the iBoxx Sterling Over 15 Years Non Gilts (ex-BBB) Index. Legal & General's objective for the fund is to perform in line with this benchmark before investment management fees over rolling three-year periods.

The Fund's allocation to the Buy & Maintain Credit Fund provides a combination of growth and income by investing in corporate bonds and other debt instruments, issued in the UK or overseas. The Buy & Maintain Credit Fund will invest primarily in debt rated by a recognised rating agency as investment grade, although the fund may retain bonds which are downgraded below investment grade after purchase (up to a maximum limit of 10%).

The benchmark for the Sterling Liquidity Fund is 7-day LIBID (London Interbank Bid Rate). The fund's objective is to provide capital stability and a return in line with the benchmark while providing daily access to liquidity.

The Fund's allocation to LDI is via the Matching Core Fixed Long LDI Fund, the Matching Core Fixed Short LDI Fund, the Matching Core Real Long LDI Fund and the Matching Core Real Short LDI Fund.

The objective of the Matching Core LDI fund range is to provide liability hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK defined benefit pension scheme.

The Trustee has instructed Legal & General to use the L&G Sterling Liquidity Fund to manage any collateral requirements (if required) for the Fund's investment in the Matching Core LDI fund range. If there are insufficient assets in the L&G Sterling Liquidity Fund, the Trustee has instructed Legal & General to use the Baillie Gifford Multi Asset Growth Fund to manage any remaining collateral requirements (if required) for the Fund's investment in the Matching Core LDI fund range.

M&G

The Fund invests in the Inflation Opportunities V Fund.

The objective of the Inflation Opportunities V Fund is to return UK RPI plus 2.5% pa over a rolling five-year period after the deduction of fees. The Inflation Opportunities V Fund may invest in any asset class which M&G considers will provide a return linked to or protection from a change in UK inflation, including but not limited to index linked gilts, index-linked corporate bonds, infrastructure, long lease property, social housing, ground rents, asset backed securities, inflation swaps and credit default swaps.

Additional Voluntary Contributions ("AVCs")

AVCs are paid to and invested with Standard Life Assurance Company. In addition, there are further AVC arrangements to which no further contributions are being paid. These are invested with Equitable Life Assurance Society, Standard Life Assurance Company, Prudential Assurance Company, Aviva and Aviva - Commercial General Union.

The Trustee regularly reviews the Fund's AVC arrangements.

Part 4:
Monitoring and engaging with managers on voting and engagement

This section sets out our effective system of governance ("ESOG") in relation to stewardship. This includes monitoring the voting and engagement activities that our investment managers undertake on our behalf, engaging with them regarding our expectations in relation to stewardship, and encouraging improvements in their stewardship practices. We will review this ESOG periodically.

Stewardship priorities

We have selected some priority themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We will review them regularly and update them if appropriate. Our current priorities are climate change, diversity equity and inclusion and business ethics.

We chose these priorities because they are market-wide areas of risk that are financially material for the investments and can be addressed by good stewardship. Therefore we believe it is in our members' best interests that our managers adopt strong practices in these areas.

We will write to our investment managers regularly to notify them of our stewardship priorities and remind them of our expectations of them in relation to responsible investment – ie ESG considerations, climate change, voting and engagement.

Manager selection

We aim to appoint investment managers that have strong responsible investment skills and processes. We therefore favour investment managers who are signatories to the Principles for Responsible Investment, the UK Stewardship Code as well as the Net Zero Asset Managers Initiative.

When selecting new managers, we consider our investment consultant's assessment of potential managers' capabilities in this area. If we meet prospective managers, we usually ask questions about responsible investment, focusing on our stewardship priorities.

Manager monitoring

We receive information annually to enable us to monitor our managers' responsible investment practices and check how effective they're being.

This information includes metrics such as our investment consultant's responsible investment grades for each manager, whether they are signatories to responsible investment initiatives, and (where available) carbon emissions data for our mandates.

Annual responsible investment review

Each year, the Trustee Board undertakes a more comprehensive review of our managers' responsible investment practices. This includes our investment consultant's qualitative responsible investment assessments for each manager, a summary of the managers' voting and engagement policies including in relation to our stewardship priorities, and summary statistics for their voting and engagement over the previous year where available.

Ongoing cycle of manager engagement

Given that responsible investment is rapidly evolving, we expect most managers will have areas where they could improve. We therefore aim to have an ongoing dialogue with our managers to clarify our expectations and encourage improvements.

We review the information outlined above to identify any concerns, for example where the managers' actions are not aligned with our views. Where there are concerns, we typically seek further information through our investment consultants. If a concern is confirmed, we will consider what further action is appropriate.

Implementation statement including most significant votes

Following the end of each Fund year, we prepare a statement which explains how we have implemented our voting and engagement policies during the year. We publish it online for our members to read.

In the statement, we describe how our managers have voted on our behalf during the year, including the most significant votes cast. The Trustee Board selects these votes from a set of significant votes compiled by our investment consultant from those provided by our managers. In doing so, we have regard to:

- whether it relates to one of our stewardship priorities;

- the potential financial impact of the vote;
- any potential impact of the vote on our investor rights or influence;
- the size of our holding; and
- whether the vote was high-profile or controversial.