



# Nestlé UK Pension Fund (DB Section) Statement of Investment Principles

November 2024

## 1 Introduction

### 1.1 Document Purpose

This document contains the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995, for the Nestlé UK Pension Fund ('the Fund').

The Fund comprises of both a defined benefit and defined contribution section. This document covers the defined benefit section (DB Section) only of the Fund. It describes the investment policy being pursued by the Trustee of the Fund and reflects the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 and other legislation.

The Trustee has taken proper written advice from its investment advisers and consulted the Principal Employer to the Fund in the preparation of this SIP.

### 1.2 Fund Governance

Nestlé UK Pension Trust Limited ('the Trustee') acts as trustee of the Fund. Responsibility for setting the strategy and for managing the Fund rests with the Trustee. This includes responsibility for the governance and investment of the Fund's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Fund as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to its appointed investment managers and/or its advisors as appropriate.

The Trustee has also appointed an Investment Executive to assist in carrying out its duties.

The Trustee takes advice from its investment advisers to ensure that the assets of the Fund are invested in accordance with the policies set out in this SIP and the requirements of section 36 of the Pensions Act 1995.

## 2 Beliefs

### 2.1 Investment Beliefs

The Trustee, having consulted with its investment advisers, has adopted a set of investment beliefs. These assist the Trustee in its consideration of investments and are as follows:

- An effective investment strategy must have clearly defined objectives for both return and risk and clear measures of success that allows 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.

### 2.2 Responsible Investment Beliefs

- ESG, including climate-related factors, are financially material and should be measured and monitored.
- Climate change risk in particular represents a long-term material financial risk for the Fund, which could impact the Fund's investments, sponsor and members. Risks to the Fund arising from climate change include economic, demographic and asset risks – whether from the physical impacts of climate change itself or the impact of transition to a lower carbon economy.
- 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.
- Engagement is the preferred means of aligning the Fund's investments with the goals of the Trustee, but the Trustee will retain the right to follow an exclusion and divestment strategy where engagement fails to yield meaningful alignment and where consistent with the Trustee's fiduciary duties.

- Achieving alignment with the goals of the Paris Agreement<sup>1</sup> is likely to be in the long-term financial interests of the Fund and its members and the Trustee will incorporate consideration of this goal into strategic decision making.
- The impact of ESG including climate-related factors is of growing importance for strategic decision making. The Trustee recognises that there is ongoing development in the understanding of these factors overall and the financial impact they can have. Therefore, the Trustee will endeavour to evolve its thinking over time to further incorporate future developments in this area.

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<sup>1</sup> The 2015 Paris Agreement is an international treaty on climate change. Its goal is to substantially reduce global greenhouse gas emissions and to limit the global temperature increase in this century to 2 degrees Celsius while pursuing means to limit the increase even further to 1.5 degrees, compared to pre-industrial levels. You can read more about this here: <https://www.un.org/en/climatechange/paris-agreement>.

### 3 Investment Objectives

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

To help achieve its investment objectives, the Trustee has established a Defined Benefit Investment Committee ("the IC"), which is responsible for certain investment matters delegated to it under terms of reference.

The Trustee's objectives for the DB Section of the Fund are:

- Primarily to invest the assets of the Fund to meet its liabilities when they fall due. The Trustee wishes to protect members' accrued benefits, whilst maintaining a reasonable prospect of being fully funded on the long-term funding basis of Gilts +0.5% p.a. by 31 December 2036.
- Manage the investment risk, including that arising due to mismatch between assets and liabilities, and limit the total risk of the Fund. These include (but are not limited to) deficit risk, investment manager risk, volatility/market risk, liquidity risk, currency risk, interest rate and inflation risk, political risk, sponsor risk and counterparty risk. The IC monitors and manages these risks through measures specific to each risk.
- Maintain suitable liquidity of assets such that the Fund is not forced to sell investments at particular times to pay member benefits or meet potential collateral calls.

## 4 Summary of the Fund's Investment Strategy

### 4.1 Investment Allocation Approach

The strategic allocation of the assets in the DB Section of the Fund between the major asset categories is viewed by the Trustee as the most important means of controlling the balance between risk and expected return on the Fund's assets. Assets are invested taking account of the nature and duration of the Fund's liabilities and to ensure appropriate diversification between asset categories.

Three key portfolios make up the Fund's Strategic Asset Allocation ("SAA"):

- The Growth Portfolio: The intention of this portfolio is to invest in assets such as equities and private equity that look to generate positive long-term returns to help the Fund meet its investment objective.
- The Matching Plus Portfolio: The intention of this portfolio is not to perfectly match the liabilities; instead it aims to achieve a modest excess return by investing in assets that have the characteristics of generating a set of cashflows, which may have some element of interest rate and inflation sensitivity. These assets will, therefore, provide risk reduction and help the Fund meet its liabilities when they fall due.
- The Matching Portfolio: This portfolio will be invested in assets that look to match the interest rate and inflation sensitivities of the liabilities (up to a hedge ratio specified by the IC). These assets have the sole purpose of reducing interest rate and inflation risk that the Fund is exposed to through the valuation of the liabilities.

The DB Section is transitioning towards its long-term target portfolio, which consists of predominantly Matching Plus and Matching assets, having hit a number of agreed de-risking triggers in recent years.

This asset allocation will aim to deliver an expected return of Gilts +0.8% p.a. (i.e. in excess of the long-term funding basis) in order to ensure that the Fund retains its strong funding position.

The assets within the target portfolio are determined after taking into consideration the Trustee's overall objectives stated in section 3 and the objectives of the underlying portfolios stated above.

### 4.2 Investment Managers

The Trustee delegates day-to-day investment decisions to suitably qualified independent investment managers. Investment Managers are carefully selected to manage each of the underlying mandates following guidance and written advice from the Trustee's investment advisers.

The IC selects the Fund's investment managers with an expectation of a long-term appointment, although the legal terms of the contracts may provide for different durations according to asset class.

To aid diversification the Trustee employs a number of investment managers with specialisms in different asset classes and regions and varying investment styles, both passive and active.

Mandates may take the form of either:

- a segregated account managed by the chosen investment manager; or
- an investment in a pooled investment vehicle operated by the chosen investment manager.

Each mandate's performance targets, benchmarks, restrictions and fees are set out in the respective Investment Management Agreements ("IMA") or pooled fund documentation. The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. Investment managers have discretion to buy and sell investments within the terms of their agreements.

When investing in a pooled investment fund, the IC ensures the investment objectives and guidelines of the fund are consistent with the Trustee's investment policies. Where segregated mandates are used, the IC may set explicit guidelines within the IMA where it is appropriate to do so.

Investment managers are listed in the Fund's annual report and accounts, which also contains information about investment performance, asset allocation and major investment decisions taken during the year.

### 4.3 Manager Review and Monitoring

The Trustee and/or IC regularly monitors the Fund's investment managers to consider the extent to which the investment strategy and decisions of the managers are aligned with the Trustee's policies. This includes monitoring:

- the managers' performance (net of fees and costs) against a benchmark appropriate to each manager, taking into account the level of risk taken by each manager. Performance targets are monitored over short, medium and long-term horizons;
- the extent to which the managers make decisions based on assessments about medium- to long-term performance and engage with underlying investee companies in order to improve their performance in the medium- to long-term;
- the managers' approach to responsible investment and alignment with the Trustee's policies in this area; and
- the managers' fees and costs related to portfolio turnover.

To assist the Trustee and/or IC in assessing performance the Trustee's investment advisers provide relevant reporting on a quarterly basis.

Should the monitoring process reveal that a manager's investment strategy and investment decisions are not aligned with the Trustee's policies, the Trustee and/or IC will engage with the manager to discuss how alignment may be improved. This includes specific consideration of the Fund's responsible investment policies (see 8 below). If, following engagement with the manager, it is the view of the Trustee and/or IC that the degree of alignment remains unsatisfactory, the arrangements with the manager may be altered or their appointment terminated.

### 4.4 Custodian

The Trustee makes use of a global custodian to safeguard the Fund's non-pooled fund assets.

## 5 Costs and charges

The Trustee is aware of the importance of monitoring the investment managers' total costs and the impact these costs can have on the overall value of the Fund's assets.

Fees are charged by the Trustee's managers either as a proportion of the assets under management or are related to performance targets. They are negotiated individually when a manager is appointed and are reviewed periodically. The Trustee and/or IC takes advice from its investment advisers to ensure that fees are commensurate with the services provided.

In addition to annual management charges, there are other costs incurred by investment managers (including portfolio turnover costs) that can increase the overall cost incurred by its investments. Portfolio turnover costs are a necessary cost to generate investment returns and the level of these costs varies across asset classes and manager. The Trustee and/or IC keeps them under review with the help of its investment advisers to ensure that they are appropriate. No specific ranges are set for portfolio turnover costs.

## 6 Types of investments held

### 6.1 Investments in DB Section

The Trustee sets the strategic asset allocation of the assets in the DB Section of the Fund i.e. both the kinds of investments to be held and the balance between different kinds of investments.

Assets are invested in accordance with the Fund's investment strategy set out in section 4. They include:

- quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, commercial and residential property, infrastructure through collective investment vehicles; and derivatives to facilitate efficient portfolio management.

Other asset classes may be used to target required returns whilst diversifying sources of expected return and risk.

Assets are diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and so as to avoid accumulations of risk in the Fund as a whole.

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.

Bonds and derivatives are used to reduce interest rate and inflation risk. Derivatives are also used for other risk reduction purposes, return enhancement and efficient portfolio management. Derivatives are managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

### 6.2 Realisation of Investments

Assets are realised as part of the rebalancing of assets in accordance with the Fund's investment strategy set out in section 4, in response to changing market conditions and to meet the cashflow needs of the Fund.

### 6.3 Expected Returns on Investments

The Trustee receives professional independent investment advice on the expected levels of investment returns (after the deduction of expected charges) and risks for the funds to ensure that they are consistent with the Trustee's objectives set out in section 3.



## 7 Responsible Investment

### 7.1 Approach to Responsible Investment

The Trustee is committed to being a responsible investor. Responsible investment is commonly defined as an approach which seeks to integrate environmental, social and corporate governance considerations including climate change (collectively referred to as “ESG” factors) into investment management processes and ownership practices.

The Trustee believes that ESG factors can have a material impact on financial performance and that considering ESG issues leads to more complete investment analyses and better-informed investment decisions consistent with the Trustee’s fiduciary and investment duties. The Trustee believes this helps to reduce investment risk in the Fund and enhance long-term portfolio returns, whilst also potentially contributing to secure a sustainable world for society.

All else being equal, the Trustee will allocate the Fund’s DB assets to asset classes where ESG can be integrated into decision making. The Trustee has also developed further detailed policies, which it applies in its dealings with the Fund’s investment managers to ensure that:

- managers’ investment strategy and decision-making are monitored and reviewed to assess their incorporation of ESG factors within their decision-making process and alignment with the Trustee’s responsible investment policies using a responsible investment framework agreed with the Trustee’s investment advisers;
- in relation to the appointment of new investment manager(s), the integration of ESG into their investment process is considered as a key selection factor used to assess the manager(s) during the investment due diligence process.

### 7.2 Stewardship

In order to focus the Trustee’s stewardship efforts, it has selected six core ESG themes. The core ESG themes have been selected based on advice as to their likely financial materiality to the Fund and alignment with the United Nations Global Compact principles. The core ESG themes are:

- Environment
- Climate Change
- Human Rights
- Labour Rights
- Corporate Governance
- Corruption

The core themes are kept under review by the Trustee and may be updated or added to periodically. Further detail on the core ESG themes selected is detailed in Appendix 2 of this Statement.

The Trustee has delegated voting and engagement activities to the Fund's investment managers or specialist third-party providers where appropriate. It is the Trustee's responsibility to monitor and oversee how the managers and third-party providers carry out their stewardship responsibilities for the Fund's assets, including the casting of votes.

Managers are expected to employ the full range of engagement tools at their disposal and engage with companies on the Trustee's behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

Managers are expected to escalate their engagement activities consistent with their own stewardship policies, which should reflect leading industry standards. The Trustee reviews manager voting and engagement policies on a regular basis to ensure they are in line with the Trustee's expectations and in members' financial best interests. Prospective investment managers are also required to provide this information for the Trustee to review in advance of any new appointment.

The Trustee expects their asset managers to be signatories to the FRC's UK Stewardship Code (or regional equivalent) and be able to demonstrate that they act in accordance with its 12 principles. Where a manager is not a signatory, the Trustee will seek to understand why this is the case and encourage them to become signatories. The Trustee recognises that stewardship expectations vary across different asset classes and are currently highest for managers of listed equity and corporate bond portfolios. For multi-asset, alternative, and illiquid investment managers, the Trustee relies on its advisors to appraise the quality of managers' stewardship as appropriate.

While the Trustee delegates voting and engagement activities to the Fund's managers, it recognises its responsibility to oversee the voting and engagement activities carried out by managers on its behalf. The Fund's investment managers are therefore required to provide qualitative and quantitative data to the Trustee and/or IC on a regular basis regarding their recent voting and engagement activities.

The Trustee and/or IC monitors the managers' track record of engaging with companies using a responsible investment framework based on the six core ESG themes agreed with the Trustee's investment advisers. The Trustee uses this framework to define its most significant votes within its annual SIP Implementation Statement.

Should the Trustee's monitoring process reveal that a manager's voting and engagement policies and actions are not aligned with the Trustee's expectations, the Trustee will engage with the manager to discuss the rationale behind their voting and engagement activity, and how alignment may be improved. If, following engagement with the manager, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the arrangements with the manager may be altered or their appointment terminated.

### **7.3 Climate Change**

Climate change is a potential long-term material financial risk for the Fund which could impact the Fund's investments. The Trustee has developed a responsible investment policy which sets out its approach on addressing the risks and opportunities of climate change in more detail as well as wider ESG risks and opportunities.

As part of this policy, the Trustee has developed a monitoring process, which includes the setting of climate change-related goals/targets for the Fund, in support of the Trustee's commitment to manage and integrate the consideration of these issues within the Fund. As part of this process, the Trustee incorporates the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") by producing and publishing a TCFD-aligned report on an annual basis.

Recognising the importance of the transition to a net zero economy, the Trustee has set an overall ambition of reaching net zero portfolio emissions by 2050, in line with the 2015 Paris Agreement.

To help fulfil this ambition, the Trustee has set an interim target to achieve 60% of financed emissions in companies assessed as:

1. Having a verified Paris Aligned temperature pathway; or
2. For high impact companies that are flagged as not having a Paris-Aligned pathway, ensuring these companies are subject to structured engagement.

This target currently applies to NUKPF's public equity and corporate bonds and the timeframe for achieving this target is 2027. The target will be reviewed periodically.

#### **7.4 Non-financial Factors**

The Trustee does not take non-financial factors into account in the selection, retention and realisation of investments in the Fund.

## 8 Risk management and monitoring

All pension schemes are exposed to various risks. The principal investment risks the Trustee considers the Fund is exposed to and how these are managed are set out in Appendix 1.

The Trustee recognises the importance of how these key risks interact with each other and with other risks the Fund is exposed to in relation to its funding level and the Fund's sponsor (the risk that, for whatever reason, the sponsoring employer is unable to support the Fund as anticipated). The Trustee also has in place processes to consider and monitor these non-investment risks on a regular basis and takes an integrated approach to managing investment and non-investment risks.

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

Name	Signed	Date
Steve Delo		9 December 2024

Name	Signed	Date
John Chilman		3 December 2024

## Appendix 1 – Risks

The Trustee considers that there are a number of different types of investment risk that are important for the Fund. These include, but are not limited to:

**Strategic risk** - The risk that the performance of the Fund's assets and liabilities diverge in certain financial and economic conditions. This risk has been taken into account in the Trustee's investment strategy review, and will be monitored by the Trustee and/or IC on a regular basis. In addition to this, the Fund is also invested in Liability Driven Investments ("LDI"), which aim to provide the Fund with exposure to assets that react to market conditions in the same way as its liabilities. The Fund's approach to LDI is to minimise the impact on funding level. This is achieved by targeting an interest rate and inflation hedge ratio equal to the funding level.

**Interest rate risk** – the value of Fund's liabilities and mandates which invest in bonds or other fixed income instruments will be affected by changes in interest rates.

**Inadequate long-term returns** - A key objective of the Trustee is that, over the long-term, the Fund should have adequate resources to meet its liabilities as they fall due. The Trustee has clear objectives for the Growth, Matching Plus and Matching portfolios and will review the portfolios' ability to meet their objectives on a regular basis.

**Investment manager risk** - The risk that the investment managers fail to meet their investment objectives. The Trustee and/or IC considers this risk, together with help from its advisers, as part of appointment and monitoring of the investment managers.

**Risk from lack of diversification** - The risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustee's ability to meet their investment objectives.

The Trustee believes that the need for the Fund's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategic asset allocation and the guidelines agreed with the investment managers.

**Liquidity risk** - The risk that the Fund is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Fund's cash flow requirements and believes that this risk is managed appropriately by the Fund's investments and the Trustee's investment objectives stated in the SIP.

On a quarterly basis, the Trustee and/or IC monitors the strategic cash flow needs and potential collateral calls from derivative portfolios to ensure sufficient liquidity to meet these needs.

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

The Trustee and/or IC, in conjunction with their investment managers, manages counterparty risk by ensuring suitable counterparty protection in Investment Management Agreements for segregated mandates or investing in pooled funds that offer suitable counterparty protection.

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

**Default risk** – for investments in bonds (where money is lent in return for the payment of interest), the issuer 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.

## Appendix 2 – Our Core Responsible Investment Themes

The Trustee has selected six core ESG themes based on advice as to their likely financial materiality to the Fund and alignment with the United Nations Global Compact principles<sup>2</sup> (as indicated below).

Environmental	Social	Governance
<p>1. Environment</p> <p>Businesses should support a precautionary approach to environmental challenges;</p> <p>Undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies.</p> <p>UN Global Compact Principles 7, 8, 9.</p>	<p>3. Human rights</p> <p>Businesses should support and respect the protection of internationally proclaimed human rights; and make sure that they are not complicit in human rights abuses.</p> <p>UN Global Compact Principles 1, 2.</p>	<p>5. Corporate governance</p> <p>Businesses should adhere to and promote the tenets of good corporate governance.</p>
<p>2. Climate change</p> <p>Businesses should have a policy and process(es) for managing climate-related risks and opportunities.</p>	<p>4. Labour rights</p> <p>Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced and compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.</p> <p>UN Global Compact Principles 3, 4, 5, 6.</p>	<p>6. Corruption</p> <p>Businesses should work against corruption in all its forms, including extortion and bribery.</p> <p>UN Global Compact Principle 10.</p>

The Trustee uses the above six core themes to provide a focus of attention for the Trustee's engagement with the Fund's asset managers and the companies in which the Fund is invested. The Trustee, with input from Nestlé's Group Pensions Unit, has implemented regular reporting against these core themes. The core themes are kept under review by the Trustee and may be updated or added to periodically.

<sup>2</sup> The United Nations Global Compact is a non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating 10 principles in the areas of human rights, labour, the environment and anti-corruption. You can read more about these here: <https://www.unglobalcompact.org/>