

Nestlé UK Pension Fund (DC Section)



# Investment Implementation Document

August 2019



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## Section 1: Introduction

This document (the ‘Investment Implementation Document or IID’) has been prepared by Nestlé UK Pension Trust Limited, as Trustee of the Nestlé UK Pension Fund (the ‘Fund’). It is intended to supplement the Fund’s Statement of Investment Principles (‘SIP’) for the DC Section.

As such, both documents should be read in conjunction, with the SIP capturing the broad principles of investment strategy and investment decision making (and thereby fulfilling the statutory requirements in terms of disclosure), with the IID providing more detail on the specific investments held and the various policies and procedures that have been agreed and put in place by the Trustee.

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

The IID covers the broad areas as follows which relate to the DC Section of the Fund.

## Section 2: Membership profile

### 2.1 Member attitude to risk

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

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

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

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

### 2.2 Member benefit choices at retirement

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

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

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

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

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

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

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

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

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

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

## Section 3: Investment options

### 3.1 Overall objective

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

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

### 3.2 Default Option

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

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

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

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

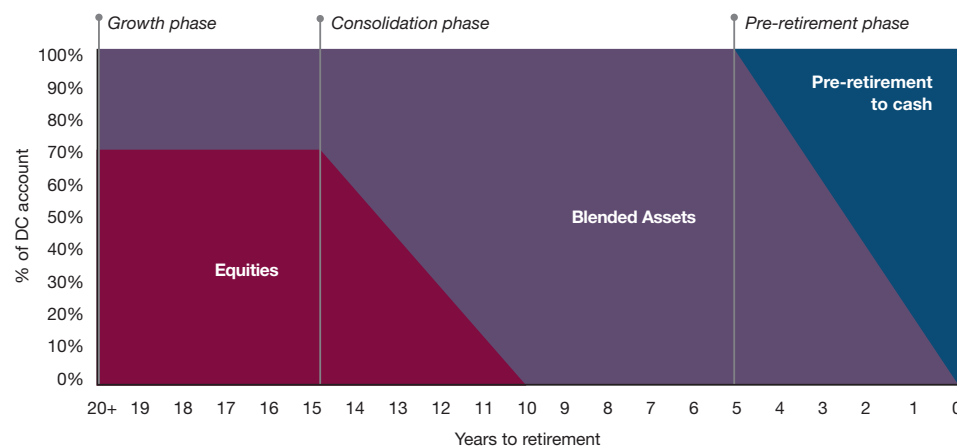
#### Objectives of the Default Option

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

The Trustee believes that a lifestyle strategy is an appropriate default arrangement. The principal objectives of the Default Option are:

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

The Default Option consists of one pathway fund, containing three phases within the 'lifecycle' of pension savings as depicted below:



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

## Funds used in the Default Option

| Asset class | Fund manager   | Fund name                    | Objective   | Benchmark   |
|-------------|--|------------------------------|---|---|
| Multi-Asset | State Street Global Advisers (SSGA), Schrodgers, Invesco | Growth Fund*                 | This fund aims to provide stable long term returns. The fund will invest in a broad range of assets including, but not limited to: equities, bonds, property, hedge funds and cash.   | 70% MSCI All Country World Index<br>15.0% CPI+4% p.a.<br>15.0% 3-month Sterling LIBOR +5%p.a. |
| Equity      | State Street Global Advisers (SSgA)                      | Equity Fund*                 | The fund seeks to provide an investment return in excess of the performance of the benchmark over the long term.  | MSCI AC World Index   |
| Multi-Asset | Schrodgers, Invesco                                      | Blended Assets Fund*         | This fund aims to provide more stable (but slightly lower) long term returns than equities. The fund will invest in a broad range of assets including, but not limited to: equities, bonds, property, hedge funds and cash. The fund is actively managed by investment managers who make asset allocation decisions in order to deliver the targeted investment return. | 50.0% CPI + 4% p.a.<br>50.0% 3-month sterling LIBOR +5% p.a.                                  |
| Multi-Asset | Legal & General  | Pre-Retirement to Cash Fund* | The aim of this fund is to provide exposure to a range of assets that have relatively low volatility and are expected to deliver returns in line with, or a small amount above, inflation.  | 100.0% 7-day LIBID  |

\*These are blended funds. Underlying funds and allocations are shown on [page 11](#).

### 3.3 Self-select fund range

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

#### Self-select funds

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

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

| Asset class | Fund manager                        | Fund name                    | Objective   | Benchmark   |
|-------------|-------------------------------------|------------------------------|---|---|
| Equity      | State Street Global Advisers (SSgA) | Equity Fund*                 | The fund seeks to provide an investment return in excess of the performance of the benchmark over the long term.  | MSCI AC World Index   |
| Multi-Asset | Schroders, Invesco                  | Blended Assets Fund*         | This fund aims to provide more stable (but slightly lower) long-term returns than equities. The fund will invest in a broad range of assets including, but not limited to: equities, bonds, property, hedge funds and cash. The fund is actively managed by investment managers who make asset allocation decisions in order to deliver the targeted investment return. | 50.0% CPI + 4% p.a.<br>50.0% 3-month sterling LIBOR +5% p.a.  |
| Multi-Asset | Legal & General                     | Pre-Retirement to Cash Fund* | The aim of this fund is to provide exposure to a range of assets that have relatively low volatility and are expected to deliver returns in line with, or a small amount above, inflation.  | 100.0% 7-day LIBID  |
| Property    | Legal & General                     | Hybrid Property Fund         | This fund aims to provide a diversified exposure to the UK and global property market.  | 70% AREF/IPD UK Quarterly All Balanced Property Fund Index<br>30% FTSE EPRA/NAREIT Global Developed Real Estate Index |

\*These are blended funds. Underlying funds and allocations are shown on [page 11](#).



table continued

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

\*These are blended funds. Underlying funds and allocations are shown on [page 11](#).

*table continued*

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

\*These are blended funds. Underlying funds and allocations are shown on [page 11](#).

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

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

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

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

Some members' AVCs are invested in the Equitable Life With-Profits Fund, the Standard Life With-Profits One Fund and the Standard Life With-Profits One 2006 Fund, which are all closed to new contributions.



## Section 4: Governance

### 4.1 Trustee's powers

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

### 4.2 Responsibilities

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

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

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

The responsibilities are described in greater detail in Appendix 1.

### 4.3 Communication

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

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

### 4.4 Service providers

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

### 4.5 Fees

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

## Section 5: Monitoring

### 5.1 Investment performance

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

### 5.2 Default Option

The Trustee monitors the suitability of the objectives for the Default Option and the performance (after the deduction of charges) of the Default Option against these objectives at least every three years and without delay after any significant change in:

- (i) investment policy; or
- (ii) the demographic profile of the membership.

### 5.3 Charges

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

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

### 5.4 Transaction costs

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

### 5.5 Chair's statement

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

## Section 6: Fees and charges

### 6.1 Investment Consultant

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

### 6.2 Investment management

The Investment Managers apply the following charges for investing in the funds selected by the Trustee. The Total Expense Ratio ('TER'), also known as the 'Total Charge', is the sum of a fund's Annual Management Charge ('AMC') and any additional expenses (reflecting all the other operating costs and expenses of running the fund). The TER includes a platform fee of 0.08%. The TER excludes transaction costs on a fund's underlying assets.

#### Default Option

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

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

### Self-select fund range

| Asset class/Fund type     | Fund  | Total Expense Ratio (TER) |
|---------------------------|---|---------------------------|
| Global Equity             | 86% SSgA Global Multi-Factor Strategy / 14% SSgA Emerging Market Equity Index Fund  | 0.19%                     |
| Blended Assets Fund       | 50% Schroders Diversified Multi Asset Fund / 50% Invesco Global Targeted Returns Fund   | 0.595%                    |
| Pre-Retirement to Cash    | 100% Legal & General Cash Fund  | 0.18%                     |
| Cash                      | Legal & General Cash Fund   | 0.18%                     |
| Property                  | Legal & General 70:30 Hybrid Property Fund  | 0.49%                     |
| Corporate Bonds           | Fidelity UK Corporate Bond Fund   | 0.43%                     |
| Ethical Growth            | 70% L&G Ethical Global Equity Index / 15% L&G All Stocks Gilts Index Fund<br>15% L&G All Stocks Index-Linked Gilts Index Fund   | 0.24%                     |
| Ethical Consolidation     | 15% L&G Ethical Global Equity Index / 17.5% L&G All Stocks Gilts Index Fund<br>17.5% L&G All Stocks Index-Linked Gilts Index Fund / 50% BlackRock Up to 5 Years Gilts Index | 0.16%                     |
| Pre-Retirement to Annuity | Legal & General Pre-Retirement Fund   | 0.17%                     |

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

Note that the Total Expense Ratio (TER) can vary slightly due to the different performance of the underlying funds and the expenses incurred by them. The TERs on [pages 10 and 11](#) are accurate as at August 2019.

### 6.3 Administration

The administration costs are borne by the Employer.

# Appendix 1 – responsibilities

## Trustee

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

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

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

## Investment Consultant

The Investment Consultant's main responsibilities include:

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

## Platform Provider

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

## **Investment Managers**

All day-to-day investment management decisions have been delegated to the Investment Managers authorised under the Financial Services & Markets Act 2000.

The Investment Managers' main responsibilities include:

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

## **Custodian**

The custody arrangements are those operated by the Investment Managers for all clients investing in their funds. The Custodians are responsible for ensuring the security of the Funds' underlying assets and recording sales and purchases of the Funds' underlying assets.

## **Administration**

The administrator's main investment related responsibilities include:

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

## **Appendix 2 – service providers**

The Trustee has appointed the following service providers:

### **Investment Consultant**

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

### **Platform provider**

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

### **Custodians**

The Fund's Custodians are appointed by the Investment Managers.

### **Administration**

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