

Pertaining to those with DC contributions made as a member of the Defined Benefit plan.

PEPSICO UK PENSION PLAN CHAIR'S STATEMENT

Background

The Pensions Act 2014 and subsequent Regulations define the DC Code for Defined Contribution (DC) Pension Schemes, the majority of which came into force from 6 April 2016. One of the key requirements is that the Trustee must publish a Chair's Statement in its annual report and accounts describing how the PepsiCo UK Pension Plan meets the required minimum governance standards.

Application

The requirement for a Chair's Statement applies to schemes which are pure DC schemes or which have some money purchase elements, except where the money purchase element arises solely from AVCs. While the PepsiCo UK Pension Plan's DC assets are not material in the context of the overall Plan, the DC code does not allow an exemption on the grounds of proportionality which means that they need to include a statement in respect of those holdings.

Timing

The Plan's first Chair's Statement was produced as part of the annual report and accounts, which related to the Plan year ending on 30 September 2015, subsequent Chair's Statements, have been produced for the plan years ending September 2016 and September 2017.

Chair's Statement

The following pages include the Chair's Statement for inclusion in the annual report and accounts to 30 September 2018. The format of the Statement has not changed markedly from the previous versions, given that there has been minimal change in how the Trustee meets the required standards. This document is being updated following completion of the review of the Plan against the Pensions Regulator's DC Code of Practice on the governance and administration of money purchase arrangements.

Important notices

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

© 2019 Mercer LLC. All rights reserved.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written

permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualised investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

This does not contain regulated investment advice in respect of actions you should take. No investment decision should be made based on this information without obtaining prior specific, professional advice relating to your own circumstances.

Paul Ivory
March 2019

PepsiCo UK Pension Plan Chair's Statement

Annual statement regarding governance

Under legislation set out in regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustee of the PepsiCo UK Pension Plan (the 'Plan') is required to prepare a statement (the 'Statement') on governance in the annual report.

This document sets out the Statement covering the period 1 October 2017 to 30 September 2018, in respect of the legacy money purchase and additional voluntary contribution ("AVC") arrangements within the Plan.

Lifestyle investment option

There is no legislative requirement to provide a default investment option for a legacy money purchase arrangement as the Plan is not being used as a qualifying scheme for automatic enrolment purposes. However, the Trustee does make available a lifestyle investment option.

The lifestyle investment option initially invests in the BlackRock Aquila Life (30:70) Currency Hedged Global Equity Index Fund, until a member is five years from their selected retirement date. Thereafter, a combination of a change in the investment of contributions and switching of existing funds will reduce the holding in global equities and increase the holding in the BlackRock Aquila Life Cash Fund, such that at a member's selected retirement age they are invested 100% in the Cash Fund, which reflects how a typical member takes benefits from the Plan.

In accordance with the Administration Regulations, the Trustee has appended the latest copy of the statement of investment principles (the 'SIP') prepared for the Plan. There was no review of the lifestyle investment option during the Plan year ending 30 September 2018.

The last review of the lifestyle investment option was completed in August 2015. At that time an adjustment was made to the underlying funds used within the lifestyle investment option, with the new BlackRock Aquila Life (30:70) Currency Hedged Global Equity Index Fund introduced to further diversify the global equity option available.

The Trustee will continue to monitor the lifestyle investment option and will make amendments as appropriate based on analysis of the likely requirements of Plan members. The next planned review of the lifestyle option is due to be carried out in the 2018/2019 scheme year.

Requirements for processing financial transactions

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately.

The Trustee operates a system of internal controls aimed at monitoring the Plan's administration and management. Included in this system are mechanisms for ensuring the prompt and accurate processing of financial transactions, including core transactions such as the payment and investment of contributions, the transfer of member assets into and out of the Plan and the payment of benefits.

The Trustee maintains a **Risk Register**, which sets out the key risks for the Plan and its membership.

The **Schedule of Contributions** sets out timescales for the Company to remit monthly contributions to the Plan. These timescales and processes are reviewed by the Company's internal audit and its findings shared with the Trustee.

The Trustee has delegated administration of the Plan to JLT and has agreed minimum timescales with its administrators for all services, including core financial functions. The administration reports produced by JLT are reviewed **quarterly** by the Trustee. The Trustee also makes use of professional advisers:

- Mercer Limited has been appointed by the Trustee to provide investment consultancy services.
- Barnett Waddingham LLP has been appointed by the Trustee to provide general pension consultancy services.
- The auditor to the Plan is Grant Thornton UK LLP, who perform spot checks to ensure that contributions are paid in accordance with the Plan's rules.

Charges and transactions costs

As required by the Administration Regulations, the Trustee is required to report on the charges and transactions costs for the investments used in the lifestyle arrangement and their assessment on the extent to which the charges and costs represent good value for members.

Transaction costs are the expenses associated with a member trading in and out of a fund as well as the investment manager trading a fund's underlying securities, including commissions and stamp duty.

The Trustees have approached Mercer to obtain details of transaction costs applicable to the investment funds. The response from the Scheme's investment managers has been that they are working to establish a framework that allows them to calculate and present transaction costs. A delay is expected in providing transaction costs completely compliant with the legislation; however, estimated transaction costs have been prepared in the meantime.

The estimated transaction costs provided by the Scheme's investment managers have been reported separately to the Total Expense Ratio.

The Trustees will continue to request transaction cost information and will provide further details in the Chair's Statement in the 2019 accounts.

The total charges payable under the lifestyle investment strategy will vary depending on the stage that each member has reached in the lifestyle arrangement's de-risking process:

Investment Phase	Underlying investment fund	TER (%p.a.)	Estimated Transaction Costs (p.a%)
Growth	BlackRock Aquila Life (30:70) Global Equity Index Fund (currency hedged)	0.162	0.01472
De-risking	BlackRock Aquila Life Cash Fund	0.125	-0.00028

The following provides information on the charges and transactions costs applicable to all non-lifestyle investment choices:

Underlying investment fund	TER (%p.a.)	Estimated Transaction Costs (%)
BlackRock Aquila Life Over 5 Year Index Linked Gilt Index Fund	0.104	0.03502

The total expense ratios (“TERs”) shown above include the Annual Management Charge (AMC) and other expenses associated with the running and management of the funds (which will vary slightly from time to time). The charges are stated as at June 2018.

In addition to the investments held by BlackRock, there are additional With-Profits legacy investments held with Prudential, Equitable Life, Aviva (Formerly Friends Life) and Standard Life. These are all closed to new investment.

The Trustee delegates the responsibility for running these money purchase arrangements to the respective providers, with over-riding administration provided by JLT.

The Trustee’s annual audited report and accounts include reference to money purchase contributions and investments and the Trustee undertakes an annual monitoring review and receives ad-hoc updates, where necessary.

The Trustee has requested information about the transaction costs from the Legacy AVC providers with varied success. At the time of reporting Standard Life were only able to provide estimated transaction costs for their With Profits funds, but not the transaction charges and Aviva are in the process calculating the costs and charges that apply. The Trustee will review this position with the aim of reporting the transaction costs for the remaining AVC funds for the 2019 Chair’s Statement.

Equitable Life have confirmed that the fund Annual Management Charge is 1% p.a and the transaction cost is 0.023591% p.a.

The charges for the Standard Life With-Profits Funds are reflected in the size of non-guaranteed bonuses for each fund, the estimated underlying transaction costs provided for the Standard Life Pension With Profits One Fund and for the Standard Life Pension With Profits One 2006 Fund are 0.1008% p.a.

Prudential have confirmed there is an implicit scheme charge of 0.65% which is made through the declared bonus. The total expenses ration is 0.79% which comprises the implicit Annual Management Charge of 0.65% plus 0.14% other charges and expenses. There is also an explicit scheme charge of £500.00 p.a. which is invoiced to the Trustees.

Illustration of the effect of transaction costs and charges on members’ benefits.

Using the charges and transaction cost data provided by the various providers and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, the Trustee has included an illustration showing the impact of contributions on the growth of the Global Equity Fund. We have not assumed any contributions for the other illustrations, as the Global Equity Fund is the fund to which the majority of Additional Voluntary Contributions are paid. In order to ensure a comparable illustration of the impact of charges and costs the illustrations are based on the youngest member age of 35, using a starting pot size of £15,000 based on average fund size across the funds invested with BlackRock.

Equitable Life have provided a separate illustration in relation to the With Profits Fund based on the data they hold for the membership (the most expensive fund), details of the assumptions are included in the notes below the table.

Projected Pension Pot (in today's money)

Year	BlackRock Global Equity (most popular and highest return)- with contributions being paid of £2,700 per annum		BlackRock Global Equity (most popular and highest return)- with no contributions being paid		BlackRock Cash Fund (lowest investment return)- with no contributions being paid	
	Pot Size with no Charges Incurred (£)	Pot Size with Charges Incurred (£)	Pot Size with no Charges Incurred (£)	Pot Size with Charges Incurred (£)	Pot Size with no Charges Incurred (£)	Pot Size with Charges Incurred (£)
1	18,268	18,232	15,525	15,494	14,706	14,685
3	25,151	25,019	16,631	16,533	14,135	14,076
6	36,406	36,062	18,439	18,222	13,320	13,209
9	48,885	48,234	20,443	20,0834	12,552	12,395
12	62,720	61,649	22,666	22,136	11,829	11,632
15	78,059	76,434	25,130	24,398	11,147	10,915
18	95,066	92,731	27,862	26,891	10,504	10,243
21	113,922	110,693	30,891	29,638	9,898	9,612
24	134,828	130,490	34,250	32,667	9,327	9,020
27	158,007	152,310	37,974	36,005	8,790	8,464
30	183,705	176,359	42,102	39,683	8,283	7,943

Source data: BlackRock and JLT, calculated by Mercer

Year	BlackRock Bond Fund (lowest fees)- with no contributions being paid		Lifestyle Strategy- with contributions being paid of £2,700 per annum		Lifestyle Strategy - with no contributions being paid	
	Pot Size with no Charges Incurred (£)	Pot Size with Charges Incurred (£)	Pot Size with no Charges Incurred (£)	Pot Size with Charges Incurred (£)	Pot Size with no Charges Incurred (£)	Pot Size with Charges Incurred (£)
1	14,970	14,954	18,268	18,232	15,525	15,494
3	14,910	14,864	25,151	25,019	16,631	16,533
6	14,821	14,729	36,406	36,062	18,439	18,222
9	14,732	14,595	48,884.70	48,234	20,443	20,084
12	14,644	14,462	62,720	61,649	22,666	22,136
15	14,556	14,331	78,059	76,434	25,130	24,398
18	14,469	14,201	95,066	92,731	27,862	26,891
21	14,382	14,072	113,922	110,693	30,891	29,638
24	14,296	13,944	134,828	130,490	34,250	32,667
26	14,239	13,859	148,446	143,303	36,302	34,492
27	14,211	13,817	153,116	147,648	36,780	34,885
28	14,182	13,775	156,161	150,436	36,862	34,906
29	14,154	13,733	157,495	151,590	36,542	34,551
30	14,126	13,691	157,084	151,084	35,826	33,826

Source data: BlackRock and JLT, calculated by Mercer

Please refer to the notes below for important information about the assumptions used in the illustration above.

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. The gross investment return assumptions take into account both transaction costs and ongoing fund expenses
3. The starting pot size is assumed to be £15,000
4. For the first illustration in respect of the BlackRock Global Equity Fund contributions of £2,700 are assumed per annum, which is the average for the contributions paid per member as at 30 September 2018. No further contributions are assumed for the rest of the illustrations.
5. No salaries have been taken into account for these illustrations.
6. Values are estimates and are not guaranteed
7. The projected growth rate for each fund are as follows:
 - BlackRock Global Equity Fund (Most Popular with Highest Expected Return): 3.52% p.a. gross expected real return above inflation
 - BlackRock Cash Fund (Lowest Return): -1.96% p.a. gross expected real return relative to inflation
 - BlackRock Bond Fund (Least Expensive): -0.20% p.a. gross expected real return relative to inflation

Year	Equitable Life With-Profits (most expensive funds)	
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	1,010	995
3	1,030	985
5	1,050	975
10	1,102	950
15	1,157	926
20	1,214	902
25	1,275	879
30	1,338	858
35	1,405	900
40	1,475	945

Source: Equitable Life

Please refer to the notes produced by Equitable Life below for important information about the assumptions used in the illustration above.

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £1,000 for a Male aged 50
3. No further contributions have been assumed for this illustration.
4. Inflation is assumed to be 2.5% p.a.
5. Values shown are estimates and are not guaranteed
6. The projected growth rate the With-Profits fund is 3.5% p.a.
7. The Scheme has a guaranteed roll-up rate of 3.5% p.a. for With-Profits

Security of Assets

The Scheme has undertaken a review of the financial protections available to members in the unlikely event of losses caused by the insolvency or other failure of one or more companies involved in managing the Scheme's investments.

As a result of this review, which included input from the Trustee's legal and investment advisors, the Trustee is satisfied with the level of protection afforded to DC assets.

Value for Money

In accordance with regulation 25(1) (b), the Trustee undertook a review of the charges and transaction costs incurred by members during the period in order to ascertain whether or not they represent good value for members. As all administrative costs for the defined contribution section are met by the

Scheme, the Trustee only considered the investment charges (the AMC and other expenses that make up the TER) for these funds as part of its formal review.

The value for money assessment was conducted by Mercer and as a result of this review; the Trustee has concluded that the level of charges and transaction costs incurred by members of the PepsiCo UK Pension Plan with money purchase investments in the current arrangement with BlackRock, does represent good value for money. The next annual review is due to be carried out in the 2018/ 2019 scheme year.

The Scheme also provides a number of services to members at no cost. These additional services include:

- Scheme governance related costs, which include oversight of the Scheme by the Trustees and their advisers and furthermore, includes support from the internal team at PepsiCo HR/Benefits
- Costs relating to the administration of the Scheme

The fact that members are not required to contribute to other charges greatly reduces the cost impact and represents a significant element of the value for money offered to Scheme members.

DC Code of Practice

During the Plan year, the Trustees have reviewed the actions they take in meeting the expectations of the Pensions Regulator, as set out under its new **DC Code of Practice 13** for the governance and administration of money purchase pension schemes. The Code sets out the standards of conduct and practice that the Regulator expects trustee boards to meet in complying with their duties in legislation.

It was duly noted that the Trustees broadly fulfil these expectations. Where the Trustees identified improvements to the way it works, they have put in place an action plan to achieve enhancements and these actions have been included within their ongoing planning.

Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Plan. This requirement has been met during the course of the scheme year as follows:

- During the year the Trustee has undertaken ongoing training, both as a group and individually to keep abreast of relevant developments and more specifically in the following areas
 - Conflicts of Interest & Confidentiality
 - Legal duties & role of advisors
 - Internal controls as part of risk register review
 - DC governance requirements and the DC Code
- The Trustee has regularly reviewed their training needs;

I confirm that the above statement has been produced by the Trustee to the best of our knowledge.

Signature: _____

Name: _____

Position: _____

Date: _____

Appendix

Statement of Investment Principles effective December 2018.