PepsiCo UK Pension Plan (‘the Plan’)

Annual Implementation Statement for the Year Ended 30 September 2024

1. Introduction

The Trustee has produced a Statement of Investment Principles (“SIP”) in accordance with Section 35 of the Pensions Act 1995, the Occupational Pension Scheme’s (Investment) Regulations 2005 and subsequent legislation. The Trustee has also prepared a Default Arrangement Statement of Investment Principles (“Default SIP”).

This statement sets out how, and the extent to which, the SIP and Default SIP have been followed during the year running from 1 October 2023 to 30 September 2024 (the “Plan Year”). This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the statutory guidance on reporting on stewardship in the implementation statement dated 17 June 2022.

The statement is based on, and should be read in conjunction with, the relevant versions of the SIP and Default SIP that were in place for the Plan Year. This was the SIP dated September 2023, the SIP dated September 2024, the Default SIP dated September 2023, and the Default SIP dated 2024.

Sections 2.1 and 2.2 of this statement set out the investment objectives of the Plan and changes that have been made to the SIP and Default SIP during the Plan Year, respectively. Section 2.3 of this statement sets out how, and the extent to which, the policies in the Defined Benefit (“DB”) Section and Defined Contribution (“DC”) Section of the SIP and Default SIP have been followed. **The Trustee can confirm that all policies in the SIP and Default SIP have been followed in the Plan Year.**

A copy of the SIP and Default SIP are available at https://www.pepsico.co.uk/pension-plan-members.

Sections 3 and 4 include information on the engagement and key voting activities conducted by the Plan’s underlying investment managers.

2. Statement of Investment Principles

2.1. Investment Objectives of the Plan

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objectives for the DB Section of the Plan specified in the SIP are as follows:

- To achieve an investment return that is sufficient to maintain reasonable control over the various funding risks that the Plan faces.
- A secondary objective is to generate a long-term return on the Plan’s assets in excess of the return assumed for calculating the liabilities. In setting the strategy, the Trustee sets prudent risk management guidelines, which provide reasonable protection for the funded status of the Plan and ensure lower volatility in pension expense and reasonable stability in Company contributions (as required).

The Trustee holds certain DC assets on behalf of members of the Plan. These include additional voluntary contributions (“AVCs”) and assets relating to legacy money purchase benefits in the Quaker Pension Scheme and the Huntley & Palmer Money Purchase Pots or Special Transfer Credits.

The Trustee’s objective for DC elements of the Plan (including AVCs) is to assist members to provide adequately for themselves in retirement via appropriate investment of their accumulated savings under the Plan.

2.2. Review of the SIP and Default SIP

During the year to 30 September 2024, the Trustee reviewed the Plan's SIP, taking formal advice from its Investment Consultant (Mercer Limited). The Trustee signed a revised SIP in September 2024. Amongst other things, the revised SIP reflects the investment de-risking agreed and implemented over the course of the Plan Year, as well as a policy on illiquid investments.

The Trustee has also reviewed the Default SIP during the Plan Year, again taking formal advice from its Investment Consultant. The Trustee signed a revised Default SIP in September 2024. The revised Default SIP provides additional clarity on the default arrangements and the Trustee's policy on environmental, social and governance ("ESG") considerations, as well as setting out the Trustee's policy on illiquid investments.

2.3. Assessment of how the policies in the SIP and Default SIP have been followed for the Plan Year

The information provided in this section highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP (dated September 2023 and September 2024) and Default SIP (September 2023 and September 2024), relating to the DB and DC Sections of the Plan.

As summarised below, it is the Trustee's view that the policies in the SIP and Default SIP have been followed during the Plan Year.

Investment Mandates		Policy	Policy met?
Securing compliance with the legal requirements about choosing investments	DB DC	As required by legislation, the Trustee consults a suitably qualified person when making investment selections by obtaining written advice from its Investment Consultant.	✓
Realisation of investments	DB DC	The Trustee's objective is to ensure that there is sufficient liquidity within the Plan's assets to meet short term cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Plan's overall investment policy.	✓

Environmental, Social and Governance		Policy	Policy met?
Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments	DB DC	The Trustee believes that ESG factors may have a material impact on investment risk and return outcomes. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee has given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, in particular in relation to the selection, retention and realisation of underlying investments. Meanwhile, the Trustee considers how ESG considerations (including climate change) are integrated within investment processes when appointing new investment managers and monitoring existing investment managers. For segregated mandates, the Trustee specifies objectives and restrictions within the mandate guidelines that are consistent with its ESG beliefs and policy (where appropriate).	✓

	The Trustee does not require the Plan's investment managers to take non-financial matters into account in their selection, retention and realisation of investments. Although the Trustee has no formal process for seeking the views of members on ethical considerations or on issues such as social and environmental impact, it will consider views expressed by members provided that they are consistent with the Plan's investment objectives.	

Voting and Engagement Disclosures		Policy	Policy met?
The exercising of rights attaching to the investments and undertaking engagement activities in respect of the investments	DB DC	The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Plan's investments to the investment managers. The Trustee considers how stewardship considerations are integrated within investment processes when appointing new investment managers and monitoring existing investment managers.	✓

Monitoring the Investment Managers		Policy	Policy met?
Incentivising asset managers to align their investment strategies and decisions with the Trustee's policies	DB DC	For pooled fund investments, the Trustee accepts that it cannot specify the risk profile and return targets for these strategies. However, appropriate funds are selected to align with the overall investment strategy and the Trustee's policies. For segregated mandates, the Trustee specifies criteria in the investment manager agreements to meet the Plan's specific investment requirements. Where appointments are for actively managed mandates, the managers are incentivised through remuneration and performance targets.	✓
Evaluation of asset managers' performance and remuneration for asset management services	DB DC	The Trustee reviews the performance of the Plan's investments on a regular basis. The Trustee's focus is primarily on long-term performance, but short-term performance is also considered. As a long-term investor, the Trustee is not looking to change the investment arrangements on a frequent basis. However, if a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee will review the appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives. In such instances, the Trustee may ask the manager to review their fees instead of terminating the mandate. Remuneration for asset management services is agreed prior to manager appointment and is reviewed on a regular basis.	✓

Monitoring portfolio turnover costs	DB DC	The Trustee asks investment managers to include portfolio turnover and turnover costs in their presentations and reports where applicable. The Trustee will engage with a manager if portfolio turnover is higher than expected.	✓
The duration of the arrangements with asset managers	DB DC	There is no set duration for manager appointments. However, appointments are regularly reviewed and could be terminated either because the Trustee is dissatisfied with the managers' ongoing ability to deliver the required mandate or because of a change in investment strategy by the Trustee.	✓

Strategic Asset Allocation		**Policy**	**Policy met?**
Kinds of investments to be held, the balance between different kinds of investments and expected return on investments	DB	The Trustee's overall investment policy is guided by the objectives outlined in Section 2.1 of this statement. The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the liabilities of the Plan. The Trustee invests in equities and other return-seeking assets because in the long-term they are expected to produce returns higher than a portfolio which is closely matched to the liabilities. The Trustee is willing to accept a degree of risk primarily because of its assessment of the strength of the Company covenant.	✓
	DC	The Trustee's objective is outlined in Section 2.1 of this statement. The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee regards its duty as making available a range of investment funds that will suit members' needs and risk tolerances through their working lives.	✓
Risks, including the ways in which risks are to be measured and managed	DB DC	The Trustee recognises a number of risks involved in the investment of the assets of the DB and DC Sections of the Plan and that the choice and allocation of investments can help to mitigate these risks. Details of these risks and how they are measured and managed can be found under Sections 3.2 and 5.2 of the SIP.	✓

Investment Mandates

Securing compliance with the legal requirements about choosing investments

Policy

As required by legislation, the Trustee consults a suitably qualified person when making investment selections by obtaining written advice from its Investment Consultant.

How has this policy been met over the Plan Year?

DB

Over the course of the previous Plan Year, the Trustee reviewed how the Plan gains access to corporate bond markets. As funding has improved, investment risk has been managed down and the reliance on the Company covenant has reduced, the Trustee acknowledged that the focus had started to shift from managing funding level volatility to managing the liquidity risk attached to paying members' benefits. As such, the Trustee recognised that the ability to generate predictable income in a risk efficient manner was becoming increasingly important. The Trustee concluded that adopting a buy and maintain approach to the credit portion of the portfolio provided a more risk efficient means of accessing corporate bond markets compared to the previous active approach.

Based on advice provided by the Investment Consultant, the Trustee agreed to evolve the M&G UK corporate bond mandate to a buy and maintain approach and appoint BlackRock to manage a complementary global buy and maintain credit portfolio. The Trustee received advice from its Investment Consultant regarding the suitability of the respective investments for the Plan prior to the implementation of these changes, which took place over the Plan Year.

The Trustee also agreed to terminate the mandate managed by Genesis during the previous Plan Year, due to several senior departures at the firm (amongst other things). Based on advice provided by the Investment Consultant, the Trustee agreed to obtain emerging markets equity exposure passively going forwards, via BlackRock's iShares Emerging Markets Equity ESG Index Fund. The Trustee received advice from its Investment Consultant regarding the suitability of this strategy for the Plan prior to the investment taking place, with the mandate subsequently being funded during the Plan Year.

DC

No changes were made to the DC Section's investments over the Plan Year. The Trustee has historically received advice in line with the Pensions Act 1995 (as amended) when making investment selections.

Investment Mandates

Realisation of Investments

Policy

The Trustee's objective is to ensure that there is sufficient liquidity within the Plan's assets to meet short term cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Plan's overall investment policy.

How has this policy been met over the Plan Year?

DB

Subject to maintaining the Strategic Asset Allocation ("SAA"), the Trustee has continued to use income derived from the DB Section's assets to meet cashflow requirements where appropriate, thereby reducing the need for physical disinvestments. The evolution of the M&G UK corporate bond mandate towards a buy and maintain approach and the introduction of the BlackRock global buy and maintain credit portfolio is expected to improve the income generative potential of the Plan's assets. The increase in the Plan's allocation to corporate bonds as the investment strategy continues to be de-risked over time will help to deliver the income necessary to meet the higher level of benefit payments required as the Plan matures. To facilitate this, the Trustee is in the process of implementing cashflow targets with both corporate bond managers, to ensure that future investments into corporate bonds are used to improve the extent to which the cashflows the portfolios generate match the Plan's projected outflows.

The DB Section holds a diversified portfolio consisting mostly of readily realisable securities. As such, the risk of not being able to sell assets (if required) to pay benefits is small. In particular, most of the DB Section's assets are daily priced and traded. The property fund managed by Aviva is illiquid and has a significant notice period for disinvestments. The Trustee carefully considered the illiquidity of the Aviva mandate in the context of the DB Section's cashflow position before deciding to invest (and scaled the allocations to the fund accordingly).

The property fund managed by Lothbury entered termination over the course of the Plan Year, with cash being distributed periodically as and when the underlying properties are sold. Lothbury expect to conclude the termination of the strategy in 2025.

The Trustee, taking advice from the Investment Consultant, has reviewed (and will continue to review) the cashflow policy for the DB Section regularly, to ensure sufficient liquidity is available to meet expected cashflows.

DC

No of the funds within the DC Section include any direct or indirect exposure to illiquid investments. All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets. As such, assets should be realisable at short notice, based on member demand.

The Trustee understands the potential for higher returns and the benefits of diversification, relative to more traditional asset classes (such as bonds or equities), that illiquid assets can offer. While these potential benefits are recognised by the Trustee, the Trustee is also aware of the associated risks for members. Given the potential for valuations of illiquid assets to not reflect their true value at a given time, as well as concerns over liquidity management, the Trustee does not consider direct investment in an illiquid asset fund to be suitable for members of the Plan at present but will continue to monitor developments. In principle, the Trustee would be comfortable indirectly investing in a small proportion of illiquid assets (noting it does not do so currently), where such assets formed a component of a daily-dealing multi-asset fund, to capture the potential benefits associated with investing in illiquid assets.

In selecting investments, the Trustee uses both qualitative and quantitative analysis to consider the expected impact of different strategic allocation mixes. For any future investment, the Trustee carefully considers whether the investment provides value for members, accounting for the return potential and associated risks. This includes consideration of whether the liquidity profile of the investment is appropriate.

Environmental, Social and Governance

Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments

Policy

The Trustee believes that ESG factors may have a material impact on investment risk and return outcomes. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, in particular in relation to the selection, retention and realisation of underlying investments. Meanwhile, the Trustee considers how ESG considerations (including climate change) are integrated within investment processes when appointing new investment managers and monitoring existing investment managers.

For segregated mandates, the Trustee specifies objectives and restrictions within the mandate guidelines that are consistent with its ESG beliefs and policy (where appropriate).

The Trustee does not require the Plan's investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

Although the Trustee has no formal process for seeking the views of members on ethical considerations or on issues such as social and environmental impact, it will consider views expressed by members provided that they are consistent with the Plan's investment objectives.

How has this policy been met over the Plan Year?

DB DC

The Trustee has agreed a long-term equity portfolio structure consisting of an 89% allocation to BlackRock's ACS World ESG Equity Tracker Fund and an 11% allocation to BlackRock's iShares Emerging Markets Equity ESG Index Fund. These funds aim to maximise exposure to positive ESG factors and minimise carbon exposure, whilst targeting risk and return characteristics similar to those of the broader equity markets in which they invest. The Trustee has applied (and will continue to apply) disinvestments from the equity portfolio, required for cashflow and/or de-risking purposes, to tighten the equity portfolio allocation to the long-term target, thereby increasing ESG integration at the total equity portfolio level over time.

Consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD") and the statutory requirements prescribed by the Department of Work and Pensions ("DWP")[1] the Trustee has set targets to reduce the carbon footprint (scope 1 and 2 emissions) of the DB Section's listed equity and corporate bond portfolios by 40% by 31 December 2030 and 20% by 31 December 2025 respectively, relative to a 31 December 2020 baseline. The Trustee considers these targets when making investment decisions and has reviewed the Plan's progress against them annually.

The Trustee has agreed not to set any decarbonisation targets in respect of the DC Section of the Plan, due to the limited scope for the Trustee to effect change via the existing arrangement with BlackRock, noting that the DC section also represents a small (in relative terms) and reducing part of the overall Plan (given that the Plan is closed). The Trustee is currently considering alternative means of implementing the DC arrangements, to improve the extent of ESG integration (amongst other things) within the options made available to members.

Over the course of the Plan Year, the Trustee has worked with BlackRock and M&G to improve the extent of ESG integration within the buy and maintain credit mandates. Decarbonisation objectives consistent with the target agreed by the Trustee for TCFD reporting purposes have been incorporated

[1] The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021.

into the guidelines for both mandates. Meanwhile, longer-term decarbonisation objectives, consistent with achieving net zero by 2050, were incorporated into the guidelines for the BlackRock portfolio following the end of the year under review. At the same time, additional objectives to exclude issuers that fall under BlackRock's classification of Negative Externalities and positively tilt the portfolio towards securities that fall under BlackRock's classification of Positive Externalities were incorporated into the guidelines for the mandate. It was agreed that there was less scope to incorporate such objectives into how the M&G B&M credit mandate is managed at present, due to the more concentrated nature of the universe in which the portfolio invests and that M&G did not offer a capability equivalent to BlackRock's Externalities framework. However, the Trustee intends to keep this under review.

In order to monitor the extent to which ESG factors are integrated into the appointed investment managers' decision-making, the Trustee has continued to review the ESG ratings the Investment Consultant assigns to the strategies in which the Plan invests as part of regular performance reporting for the DB and DC Sections. In addition, the Trustee has asked the managers to comment on these areas when they have presented at meetings. Furthermore, the Trustee has received an annual ESG monitoring report, which uses the Investment Consultant's ESG ratings to assess the managers' ESG credentials relative to other managers of similar strategies. The report also includes the Investment Consultant's independent assessment of the extent to which ESG factors are integrated into the Trustee's broader governance of the Plan's arrangements, relative to other similar schemes. Due to the action taken by the Trustee since the last independent assessment was carried out in Q3 2023, the Trustee improved the Plan's rating from "A" to "A+", on an "A++" to "C" scale, which was above the average rating for pension schemes of a similar size and sector. Off the back of the report, the Trustee has also identified several additional actions to further improve the extent of ESG integration within overall decision making.

The Trustee has established processes to satisfy themselves that those who advise or assist the Trustee with respect to governance activities, otherwise than as a legal adviser, are taking adequate steps to identify, assess and, where relevant, manage climate-related risks and opportunities. This includes the Trustee's investment, actuarial and covenant advisors and is consistent with the recommendations of the TCFD and the statutory requirements prescribed by the Department of Work and Pensions.

The Trustee maintains a separate ESG Policy, which sets out the Trustee's ESG beliefs and how ESG risks and opportunities are managed as part of the overall risk management of the Plan. A copy of the ESG Policy is available at https://www.pepsico.co.uk/pension-plan-members.

Voting and Engagement Disclosures

The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee would monitor and engage with relevant persons about relevant matters)

Policy

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Plan's investments to the investment managers. The Trustee considers how stewardship considerations are integrated within investment processes when appointing new investment managers and monitoring existing investment managers.

How has this policy been met over the Plan Year?

DB DC

The Trustee has asked managers to comment on these areas when they have presented at meetings.

In addition, voting and engagement summary reports from the Plan's investment managers were provided to the Trustee for review to ensure that they were aligned with the Trustee's policy during the Plan Year. Outside of those exercised by the investment managers on behalf of the Trustee, no other engagement activities were undertaken, and the Trustee does not use the direct services of a proxy voter.

Section 3 includes examples of engagement activity undertaken by the Plan's investment managers, while Section 4 sets out a summary of voting activity undertaken by the Plan's equity managers, as well as a sample of the most significant votes cast on behalf of the Trustee.

The Trustee supports the aims of the UK Stewardship Code and the Plan' investment managers are encouraged to report their adherence to the Code. All of the Plan's investment managers within the DB and DC Sections are signatories to the current UK Stewardship Code, with the exception of Lothbury, albeit this strategy is in the process of being terminated.

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022, updated guidance was produced which became effective for all scheme year ends on or after 1 October 2022. The updated guidance requires trustees to include a description of what constitutes a significant vote within Implementation Statements (amongst other things). The Trustee's definition is based on the following key stewardship themes/priorities:

- Environment – Climate change and biodiversity.
- Social – Modern slavery.
- Governance – Board diversity.

The Trustee determined these priorities based on the Trustee Directors' ESG beliefs, considering the Company's strategic priorities on ESG and sustainability matters. The investment managers are aware of the Trustee's policies on stewardship and engagement.

Monitoring the Investment Managers

Incentivising asset managers to align their investment strategies and decisions with the Trustee's policies

Policy

For pooled fund investments, the Trustee accepts that it cannot specify the risk profile and return targets for these strategies. However, appropriate funds are selected to align with the overall investment strategy and the Trustee's policies.

For segregated mandates, the Trustee specifies criteria in the investment manager agreements to meet the Plan's specific investment requirements.

Where appointments are for actively managed mandates, the managers are incentivised through remuneration and performance targets.

How has this policy been met over the Plan Year?

DB DC

The Trustee reviews the appropriateness of the funds in which the Plan invests on an ongoing basis, to ensure that they are aligned with the Trustee's policies and the investment strategy being targeted. To facilitate this process, over the course of the Plan Year, the Trustee has sought its Investment Consultant's views in relation to the managers' ability to deliver upon the Trustee's requirements for each of the Plan's mandates on a forward-looking basis. In addition, the Investment Consultant's manager research ratings, including ESG ratings, have assisted the Trustee with ongoing due diligence and have been used in decisions around the selection, retention and realisation of manager appointments.

The Trustee has not made any further decisions to appoint or terminate investment managers over the course of the Plan Year but has implemented several decisions taken during the previous Plan year. The Trustee continues to make the investment managers aware that their ongoing appointment is based on their success in delivering the mandate that they have been appointed to manage.

Monitoring the Investment Managers

Evaluation of asset managers' performance and remuneration for asset management services

Policy

The Trustee reviews the performance of the Plan's investments on a regular basis. The Trustee's focus is primarily on long-term performance, but short-term performance is also considered.

As a long-term investor, the Trustee is not looking to change the investment arrangements on a frequent basis. However, if a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee will review the appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives. In such instances, the Trustee may ask the manager to review their fees instead of terminating the mandate.

Remuneration for asset management services is agreed prior to manager appointment and is reviewed on a regular basis.

How has this policy been met over the Plan Year?

DB DC

Over the Plan Year, the Trustee has received quarterly investment performance reports for the DB Section and an annual performance report in respect of the DC Section. These reports showed performance (versus relevant benchmarks and targets) over both shorter and longer-term periods.

In February 2024, the Trustee carried out a fee benchmarking exercise for the Plan's DB assets. The exercise summarised the fee arrangements for the Plan and benchmarked them against the fees offered for broadly equivalent products, based on data drawn from Mercer's Global Investment Manager Database. Overall, the fees paid in respect of the DB Section generally offered good value on a peer group comparison basis.

Performance and remuneration were also considered as part of the annual Value for Members ("VfM") assessment carried out in respect of the DC Section.

Monitoring portfolio turnover costs

Policy

The Trustee asks investment managers to include portfolio turnover and turnover costs in their presentations and reports where applicable. The Trustee will engage with a manager if portfolio turnover is higher than expected.

How has this policy been met over the Plan Year?

DB

The Trustee has not explicitly monitored portfolio turnover costs with respect to the DB Section of the Plan over the Plan Year. Investment manager performance was reported and evaluated net of all fees and transaction costs (costs incurred as a result of buying and/or selling assets). In addition, where possible, performance objectives for investment managers have been set on a net basis. In this way, managers were incentivised to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee acknowledges that at an individual mandate level, portfolio turnover costs will form part of the Investment Consultant's manager research assessment.

DC

Regarding the DC Section, the Trustee considered portfolio turnover costs as part of the annual VfM assessment.

Monitoring the Investment Managers

The duration of the arrangements with asset managers

Policy

There is no set duration for manager appointments. However, appointments are regularly reviewed and could be terminated either because the Trustee is dissatisfied with the managers' ongoing ability to deliver the required mandate or because of a change in investment strategy by the Trustee.

How has this policy been met over the Plan Year?

DB DC

The Trustee has not agreed to make any further amendments to the appointed investment managers during the Plan Year but has implemented several decisions taken during the previous Plan year. The Trustee is comfortable with the investment managers appointed by the Plan.

Strategic Asset Allocation

Kinds of investments to be held, the balance between different kinds of investments and expected return on investments

DB

Policy

The Trustee's overall investment policy is guided by the objectives outlined in Section 2.1 of this statement.

The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the liabilities of the Plan. The Trustee invests in equities and other return-seeking assets because in the long-term they are expected to produce returns higher than a portfolio which is closely matched to the liabilities. The Trustee is willing to accept a degree of risk primarily because of its assessment of the strength of the Company covenant.

How has this policy been met over the Plan Year?

The basis of the Trustee's strategy is to divide the Plan's assets between a "growth" category (comprising predominantly equities, but which may also include limited exposure to other growth assets), a "high lease to value ("HLV") property" category and a "bonds" category (comprising liability driven investment assets and investment grade corporate bonds). The SAA is set to achieve the expected return required with an acceptable level of risk.

In December 2018, the Trustee entered into a deed of guarantee with the Company to enhance the Company covenant. The guarantee is conditional on the Trustee maintaining a SAA in line with an agreed Investment Protocol, which can be amended by mutual agreement between the Trustee and Company.

Given the continued improvement in the Plan's funding position, the Trustee and Company agreed to accelerate the rate at which the Plan's asset allocation is de-risked towards the long-term target investment strategy (6% growth assets, 4% HLV property assets and 90% bond assets) as part of the 30 September 2023 actuarial valuation. A revised Investment Protocol reflecting the acceleration of de-risking was signed in July 2024. This specifies that the long-term target investment strategy will be adopted from 1 January 2029 onwards, three years earlier than previously agreed.

As at the end of the Plan Year, the SAA was 28.0% growth assets, 4.0% HLV property assets and 68.0% bond assets. Consistent with the de-risking agreed within the latest Investment Protocol, the Trustee has established an asset allocation flightpath that sets out how the Plan's investment strategy is expected to evolve over the period until 1 January 2029. A hedge ratio flightpath has also been agreed over the Plan Year, establishing how the target level of liability hedging will evolve towards the 100% target (measured on a gilts +0.4% p.a. basis) by the point that the long-term target strategy is reached. These will act as a guide for future de-risking discussions.

In addition to other changes the Trustee has made to the Plan's investment arrangements (discussed earlier in this statement), the Trustee has also reviewed the Plan's liability hedging arrangements over the Plan Year. As at the 30 September 2024, the Trustee expected the Plan's bond assets to capture 96% of the change in the actuarial liability value due to movements in interest rates and inflation expectations (measured on a gilts +0.4% basis). The restructuring required to deliver the target hedge ratio is due to be implemented with Schroders as part of 2025 de-risking. Following the rises in gilt yields experienced since the end of the Plan Year, the Trustee has agreed to accelerate the increase in the Plan's target hedge ratio from 92% (consistent with the 2025 target under the agreed hedge ratio flightpath) to 100% on a gilts +0.4% p.a. basis (subject to review based on changes in market conditions).

The Trustee's objective is outlined in Section 2.1 of this statement.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee regards its duty as making available a range of investment funds that will suit members' needs and risk tolerances through their working lives.

The Trustee has maintained a range of investment options for members to utilise in structuring their assets according to their individual objectives.

The Trustee believes that members should be encouraged to make their own investment decisions based on their individual circumstances. However, the Trustee recognises that members may not believe themselves qualified or may not wish to make their own investment decisions. As such, in addition to a range of self-select fund options, the Trustee makes available a default lifestyle investment strategy. This strategy aims to generate investment returns that are sufficient to provide a reasonable level of retirement benefits for members, given the level of contributions paid into the Plan. The Trustee acknowledges that this strategy will not meet the needs of every individual member.

A range of asset classes are included within the default lifestyle investment option, including equity and money market funds. The strategic asset allocation is set to achieve the expected return required to meet the objective of the default lifestyle strategy in a risk-controlled manner.

A similar set of asset classes as used under the default option (with the addition of index-linked gilts) has been made available for investment via the self-select fund range. Members can combine the self-select funds in any proportion to meet their individual needs.

The default lifestyle strategy is reviewed on a triennial basis, with expected risk and return requirements being considered as part of such reviews. A review was undertaken in 2022, with the next formal review due to be carried out in 2025.

As outlined earlier in this statement, the Trustee is currently considering alternative means of implementing the DC arrangements, to further improve the offering for members.

Strategic Asset Allocation ("SAA")

Risks, including the ways in which risks are to be measured and managed

Policy

The Trustee recognises a number of risks involved in the investment of the assets of the DB and DC Sections of the Plan and that the choice and allocation of investments can help to mitigate these risks. Details of these risks and how they are measured and managed can be found under Sections 3.2 and 5.2 of the SIP.

How has this policy been met over the Plan Year?

DB

The Trustee has considered both quantitative and qualitative measures of risks via quarterly reporting provided by the Investment Consultant and/or investment managers.

The Trustee continues to maintain a risk register, which sets out the key risks to which it was exposed, including investment risks. This rates the impact and likelihood of the various risks and summarises the existing mitigations and additional actions that are required. The Trustee reviewed the risk register over the course of the Plan Year and concluded that the risks identified were being appropriately managed and measured.

DC

Members of the DC Section of the Plan can combine the investment funds in any proportion to achieve the desired level of return and risk, in line with their own attitude and risk tolerance. Within the default lifestyle option, the strategic asset allocation is set to achieve the expected return required to meet the objective of the default option in a risk-controlled manner.

As already mentioned, the asset allocation of the default strategy is reviewed on at least a triennial basis, in line with regulatory requirements. The last review was undertaken in 2022. The review considered the underlying fund structure from a risk/return perspective and the Trustee is continuing to explore the options available for achieving greater diversification for members. The next formal review will take place in 2025.

3. Engagement Activity

The following is an example of engagement activity undertaken by the Plan's investment managers.

BlackRock engages with Shell Plc (“Shell”) on governance and the firm’s Energy Transition Strategy

BlackRock has an extensive, multi-year engagement history with Shell, over which a range of corporate governance topics have been discussed. These include board composition, corporate strategy and the board’s oversight of and management’s approach to climate-related risks and opportunities.

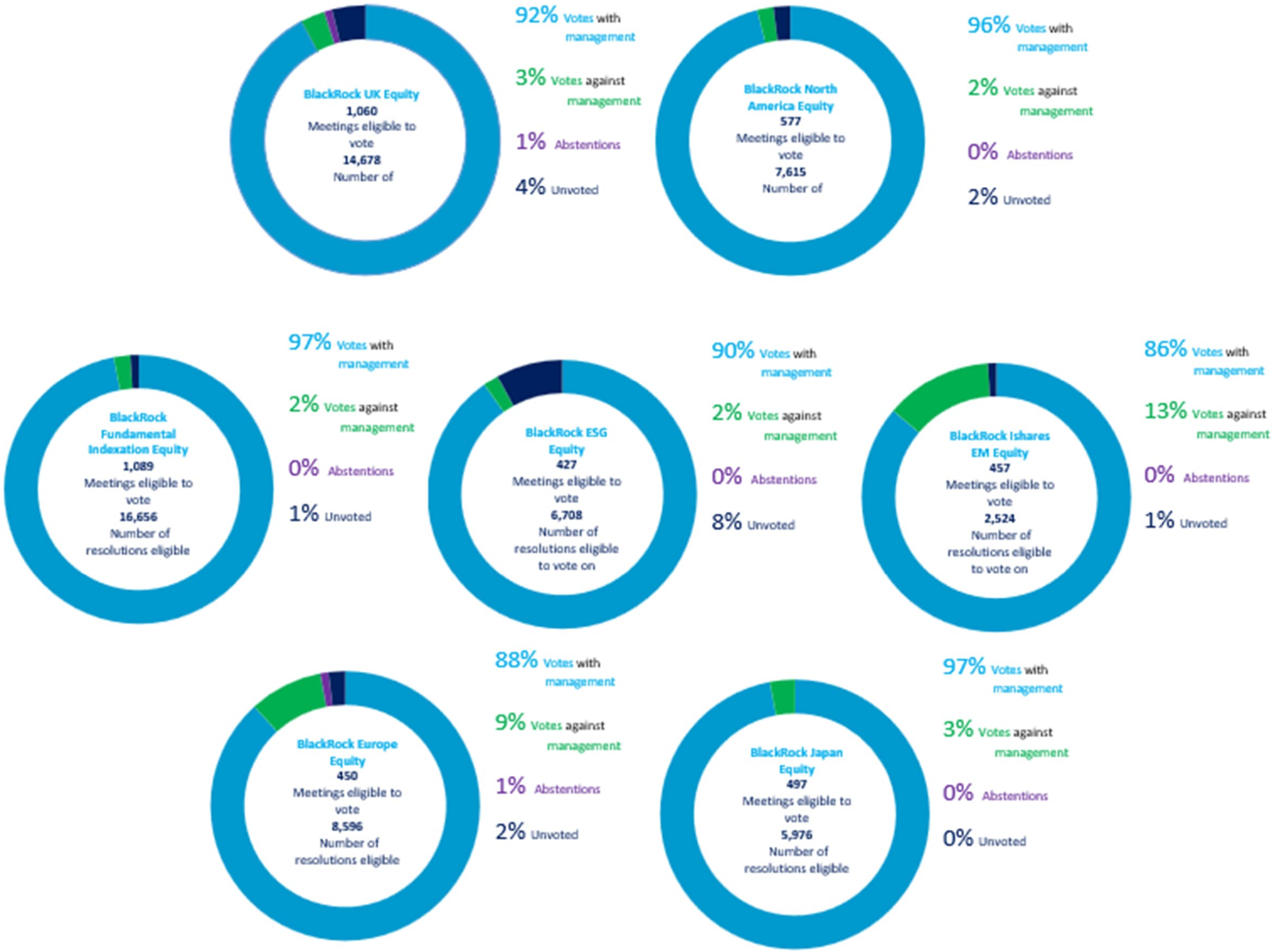
Shell originally proposed their Energy Transition Strategy to shareholders at the May 2021 annual general meeting. The 2021 proposal received nearly 89% support from shareholders, including from BlackRock. Shell’s current disclosure states that the company aims to reduce their scope 1 and 2 greenhouse gas emissions by 50% by 2030, compared to 2016 levels (on a net basis).

By the end of 2023, Shell had demonstrated that it remained on track to meet this goal.

Overall, BlackRock believe Shell has provided and continues to provide a clear assessment of its plans to manage material climate-related risks and opportunities, while also demonstrating progress against its stated Energy transition Strategy. As such BlackRock approved Shell’s Energy Transition Strategy.

4. Voting Activity during the Plan Year

Set out below is a summary of voting activity for the relevant equity strategies within the DB Section of the Plan over the Plan Year.



Source: Investment managers. Data may not sum due to rounding.

Most Significant Votes

As outlined earlier in this statement, the Trustee defines a significant vote as one that is related to the Trustee's key stewardship themes/priorities, which refers to voting in relation to climate change, biodiversity, modern slavery and board diversity. The Trustee only considers a vote to be significant if it is in connection to a holding that represented at least 1% of the relevant fund as at the end of the Plan Year (where data is available).

There we no votes that met the Trustee's signficant vote definition over the course of the Plan Year.