

Environmental, Social and Corporate Governance (“ESG”) Policy

Introduction

This policy sets out how the Trustee views and manages ESG risks and opportunities, as part of the overall risk management of the Plan. It outlines the key principles that have been established, and the Trustee’s approach to considering sustainability risk and other ESG factors.

The Trustee does not directly manage the Plan’s investments and the investment managers have discretion to buy and sell investments within the various portfolios, according to the mandate guidelines. These guidelines may include ESG considerations.

Beliefs

The Trustee believes that a sustainable investment approach is more likely to create and preserve long-term investment capital and, more specifically, that:

- Taking a broader and longer-term perspective on risk is consistent with fiduciary duty.
- ESG factors can have a material impact on long-term risk and return outcomes and should be integrated into the investment process.
- Good stewardship and engagement can create and preserve value for companies and markets, hence having the potential to benefit Plan members in the long-term. The Trustee’s key stewardship themes are climate change, nature, human rights and audit quality. The Trustee has determined these priorities based on the Trustee Directors’ ESG beliefs, considering the Sponsoring Company’s strategic priorities on ESG and sustainability matters.
- Climate change poses a systemic risk, and accordingly the Trustee will consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.
- The Paris Agreement’s objective to limit global warming to “well below 2°C” relative to pre-industrial levels, and to pursue efforts to limit warming to 1.5°C if possible, is aligned with better economic outcomes for investors.
- Nature loss poses a systemic risk, and accordingly the Trustee will consider the potential financial impacts from transition and physical risks across sectors, regions and asset classes.
- ESG factors will affect more than just the asset portfolio. As such, the Trustee views ESG factors through an integrated risk management lens, including investment, funding and covenant considerations.

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Climate change

The Trustee has established the following decarbonisation targets in respect of the Defined Benefit (“DB”) Section of the Plan:

- Reduce the carbon footprint (scope 1 and 2 emissions) of the Plan’s listed equity portfolio by 50% by 31 December 2029, relative to a 31 December 2020 baseline.
- Reduce the weighted average carbon intensity (scope 1 and 2 emissions) of the listed corporate bond portfolio by 50% by 31 December 2029, relative to a 31 December 2020 baseline.

To support the objective of limiting global warming to “well below 2°C”, relative to pre-industrial levels, and pursue efforts to limit warming to 1.5°C if possible, the Trustee has also established the following longer-term decarbonisation objectives in respect of the listed corporate bond portfolios managed by BlackRock and M&G:

- Reduce the weighted average carbon intensity (scope 1 and 2 emissions) of each portfolio by 50% by 31 December 2029, relative to a 31 December 2020 baseline¹.
- Reduce the weighted average carbon intensity (scope 1 and 2 emissions) of each portfolio by 100% by 31 December 2049, relative to a 31 December 2020 baseline¹.

BlackRock has also been instructed to invest the corporate bond portfolio in a manner that is consistent with a 7% year-on-year reduction in the weighted average carbon intensity (scope 1 and 2 emissions) of the portfolio.

The Trustee has not set any decarbonisation targets in respect of the Defined Contribution (“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 Plan (given that the Plan is closed). The Trustee is 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.

The Trustee has also agreed not to set a target for either of the property mandates utilised within the DB Section of the Plan. Metric data is less readily available for such assets, while the mandates are not expected to be a key driver of any future improvement in the Plan’s climate credentials, noting that the Lothbury mandate was in the process of being terminated at the time of writing. However, the Trustee continues to engage with the respective managers on how climate change risks and opportunities are integrated into these arrangements.

The Trustee’s overall approach to climate-related financial risks and opportunities is consistent with the Taskforce on Climate-Related Financial Disclosures (“TCFD”) framework.

¹ This is based on the portfolio’s holdings at the outset for the corporate bond portfolio managed by BlackRock, utilising MSCI data as at 31 December 2020.

Biodiversity and nature

Natural capital includes the renewable and non-renewable natural assets providing resources and services to people and economic systems. Biodiversity refers to the diverse range of life forms on Earth and the variations present within the natural world. It serves as a measure of the variability found in "living" natural capital, making it an essential aspect of this capital.




Companies exert direct, indirect, and cumulative effects on nature through a range of activities. The primary drivers impacting nature include changes in land and water use, the introduction of invasive species, overexploitation, pollution, and climate change.

The businesses in which the Plan invests rely, to varying degrees, on natural capital and ecosystem services such as clean water. The degradation of nature poses a systemic challenge both in terms of physical and transition risks, with the potential to harm business profitability and portfolio value. Therefore, it is important to understand the vulnerabilities and dependencies of the investments to the loss of natural capital while also ensuring that these companies mitigate their own impacts on it.


Similar to climate change, nature loss will affect various sectors, regions, and asset classes in different ways. Consequently, the Trustee has a desire to understand the investment managers policies on nature, as well as to identify where natural capital risks exist within the portfolio so that they can be effectively managed.

Approach

The Trustee embeds ESG considerations within the Plan’s management framework as detailed below. The “process” stage is where the Trustee seeks to move from principles to practice.

Beliefs 	The investment beliefs set out above guide the Trustee’s policy. To arrive at these beliefs, the Trustee has undertaken training on ESG and climate change. The Trustee has also participated in multiple ESG belief surveys. The most recent ESG beliefs survey was conducted in March 2025.
Policy 	Alongside the statutory disclosures required in the Statement of Investment Principles, the Trustee has established this policy as part of its governance framework on ESG considerations. The Trustee will also embed ESG considerations within investment manager and other third-party policy documentation, where appropriate.
Process 	The Trustee considers ESG matters in its processes in the following ways: <ul style="list-style-type: none">• Investment strategy (this may include scenario analysis, where relevant).• Investment manager selection and review (including diversity, equity and inclusion considerations).

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	<ul style="list-style-type: none"> • Engagement with the investment managers on their overall ESG policy and strategy, including identification of any areas for improvement and / or new ideas. • Mandate guidelines for portfolios, including exclusions, where Plan-specific exclusions will be established that align with the Trustee’s beliefs and policies. • Consideration of thematic and impact investing, as well as sustainably themed funds, should this be appropriate in the context of the Trustee’s broader objectives for the Plan. • ESG stewardship and engagement with the investment managers. • Consideration of collaborative engagement with other investors and industry associations. This may include membership of relevant organisations and signatory status for relevant initiatives. • Covenant assessment and monitoring. • Liability risks and the impact of climate change, in particular on the funding position. • Default strategy and self-select fund range design in respect of the DC Section of the Plan. • Member communication and engagement strategy. • Consideration of targets, including the aspiration to meaningfully reduce emissions within the asset portfolios over an appropriate time period.
Governance 	<p>The Trustee has put in place monitoring arrangements to assist with the governance of ESG risks. These monitoring arrangements include:</p> <p><i>Quarterly</i></p> <ul style="list-style-type: none"> • ESG ratings and related investment manager news updates published by the investment consultant. <p><i>Prior to each investment manager’s presentation to the Trustee or Investment Sub-Committee (“ISC”)</i></p> <ul style="list-style-type: none"> • Climate change analytics including carbon footprint and carbon intensity measures. • Data quality, assessed by percentage portfolio coverage. • Engagement examples. • Controversial sector allocations. <p><i>Annually</i></p> <ul style="list-style-type: none"> • Review of ESG related risks in the risk register. • Voting and engagement reporting including: <ul style="list-style-type: none"> ○ Overview of engagement examples including outcomes achieved, focusing particularly on the Trustee’s key stewardship themes.

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	<ul style="list-style-type: none">○ Analysis of “significant votes”, which are defined based on the Trustee’s key stewardship themes.○ Percentage of eligible votes exercised and the proportion in favour of management.○ Investment manager voting and engagement policies.• ESG monitoring reporting including:<ul style="list-style-type: none">○ Research views on the Plan’s investment managers provided by the investment consultant.○ Analysis of the investment managers’ ESG ratings including benchmarking against suitable peer group data.○ Assessment of the Trustee’s broader ESG integration, including comparison against the year prior and broader benchmarks covering plans of a similar size and sector.○ Consideration of the investment managers’ diversity, equity and inclusion policies and firm-wide commitments to ESG policies, projects and initiatives.• Assessment that the Trustee’s advisers (excluding the Trustee’s legal adviser) are taking adequate steps to enable the Trustee to identify, assess and, where relevant, manage ESG/climate-related risks and opportunities. <p><i>Triennially</i></p> <ul style="list-style-type: none">• Review of the Trustee’s ESG beliefs.• Maintaining the Trustee’s knowledge and understanding on ESG matters forms a core component of the Trustee’s ongoing training plan.
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Sponsor Alignment

The Trustee recognises that ESG and climate change matters carry reputational considerations and the Trustee is therefore keen to ensure it has a strong understanding of the Sponsoring Company’s position on ESG and climate change. The Trustee also intends to align with the Sponsoring Company in this respect where appropriate.

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Policy Governance

Key responsibilities for the maintenance of this policy are set out in the table below:

Party	Role
Trustee	Owner of policy, including setting and maintenance
ISC	Monitor against policy
Employer	The Employer will share with Trustee its own approach to ESG to be taken into consideration The Trustee will consult the Employer on ESG-related changes
Advisers	Provide input to policy, including advice on best practice
Investment Managers	Provide input to strategy and portfolio design Implement policy (where relevant)

The policy will be shared with the Employer, the advisers and the investment managers.

This policy will be reviewed at least annually, or more frequently if:

- Meaningful change is made to the integration of sustainability risks into the Trustee's investment and funding strategies.
- Relevant legislation or regulation requirements change.

For and on behalf of PepsiCo UK Pension Plan Trustee Limited, as Trustee of the PepsiCo UK Pension Plan.

June 2025