Annual Chair's Statement

Introduction

The Unilever UK Pension Fund (the 'Fund') is a "hybrid" scheme as it provides both Defined Benefit (DB) and Defined Contribution (DC) benefits. The Final salary plan and Career average plan are Defined Benefits. The Fund's Investing plan and its "legacy" Additional Voluntary Contribution (AVC) arrangements are DC arrangements. When we refer to 'legacy' AVCs throughout this statement, we mean those AVC arrangements that were in place before the Investing plan and those DC arrangements that came into the Fund following Unilever's acquisition of another company which are not invested in the range of funds which are also used for the Investing plan.

This statement is only about the Fund's DC arrangements – it covers the Fund's Investing plan set up in 2008 which is administered by Fidelity Investments Life Insurance Limited ('Fidelity') and the Fund's various legacy AVC arrangements which are held with external providers. It is a legal requirement for trustees to include an annual statement regarding governance of their DC arrangements in the report and accounts. This statement details how the Fund Trustees:

- have designed a default investment strategy that is in the members' interests and keep it under regular review;
- ensure that core financial transactions are processed promptly and accurately;
- have assessed the value of costs and charges borne by scheme members; and
- ensure Trustee Knowledge and Understanding requirements are met

The default investment strategy

The Investing plan has a range of funds in which members can choose to invest, including a default investment strategy. Members who do not actively choose funds to invest in are placed in the default investment strategy which is a lifestyling arrangement with three funds: the Moderate Growth Fund, the Cautious Growth Fund and the Cash Fund. The Statement of Investment Principles for the default strategy ('Default SIP') attached gives more information about the default strategy. There is no default strategy associated with the legacy AVC arrangements.

Investing plan review (including review of the default investment strategy)

The Trustees review their aims, objectives and policies in relation to the Investing plan funds at least every three years. Following on from the review completed on 28 April 2015, the Trustees began their three-yearly review of the Investing plan's investment and administration arrangements at the start of 2018 and this included reviewing the aims and objectives of the default investment strategy. The Trustees sought advice from a professional investment consultant to help them with the review. They considered, among other things, the interests of members, the risk and return profile, fees and the context of the Investing plan being a "top up" arrangement to the Fund's Career average plan benefits. The review was completed on 30 April 2019. In summary, the Trustees concluded that the current fund choices, their objectives and the default investment strategy remain appropriate. The following agreed changes to the funds making up the default investment strategy will take place later in 2019:

- moving half of the current global equity portfolio to an actively managed, multi-factor mandate with an Environmental, Social and Governance (ESG) overlay;
- reducing the exposure to emerging market equities to a neutral position as measured by the market cap of emerging market stocks in a global equity index; and
- replacing the current static income exposures with dynamic credit allocation through an actively managed Multi Asset Credit mandate.

These changes are aimed at offering members better risk adjusted returns.

The Default SIP was last reviewed with the Chair Statement on 11 October 2018. It has been updated to provide further information on the default arrangements and the latest version approved on 9 October 2019 is attached. It will be updated again later in 2019 to reflect the changes being made to the make-up of the funds described above.

The Trustees also looked at how the Investing plan investment and administration services are provided to members to check if the current provider, Fidelity, still provides a good service and value for money compared to the market. The Trustees concluded that they do and as a result of the review, the Trustees were able to agree new lower member charges with Fidelity. These will take effect once the implementation of the investment changes is completed later in 2019.

Fund performance review (including review of performance of funds in the default investment strategy)

The Trustees review the performance of the Investing plan funds, including the funds that are part of the default arrangement, each quarter, with input from the Univest Company. The Trustees receive a report that sets out the performance of the funds and commentary on performance, fund managers and market conditions.

Through the information provided in the quarterly monitoring, the Trustees are satisfied that the objectives of the funds making up the default investment strategy are being met. The table below shows how the fund objectives have been met.

Fund	Objective aim	1 year return to 31 March 2019	5 year return to 31 March 2019 (p.a.)
Moderate Growth Fund	Achieve a return over the long term (5 years or more) that exceeds the return on the cautious growth fund (albeit with a higher prospect that a negative return could be experienced over the same period than the cautious growth fund)	5.4%	8.0%
Cautious Growth Fund	Achieve a return over the long term (5 years or more) that exceeds the return on the cash fund (albeit with a higher prospect that a negative return could be experienced over the same period than the cash fund)	5.5%	7.0%
Cash Fund	Preserve capital whilst aiming to provide a return on investments similar to that which might be achieved on cash deposits in a bank or building society	0.5%	0.2%

Therefore, no changes will result from the quarterly monitoring reviews to date as the returns are consistent with the funds' aims and objectives.

Core financial transactions

The efficient running of a DC arrangement depends on the prompt and accurate processing of financial transactions which include (but are not limited to):

- the investment of contributions to the DC arrangements;
- the transfer of assets relating to members into and out of the DC arrangements;
- the transfer of assets relating to members between different investments within the Investing plan; and
- payments from the DC arrangements to, or in respect of, members.

The completion of these transactions involves various external parties. The Trustees understand that if the above transactions are not processed correctly or are delayed, members' retirement savings could be affected. As such the Trustees operate measures and controls aimed at ensuring that the correct amounts for the correct members are invested, or paid out to, or in respect of members in a timely manner. It is the Fund's administrators – Capita and Fidelity – who process core financial transactions. The measures and controls operated by the Trustees are:

Service Level Agreements (SLAs)

Agreements are in place with both Capita and Fidelity by which they commit themselves to complete a range of tasks and which set out how long each task (including core transactions) should take. The service levels are based on legal requirements, regulatory guidance and industry practice. In addition, to help Trustees monitor that the SLAs are being met:

- Fidelity and Capita report quarterly on their performance against those SLAs; and
- Fidelity confirm on a quarterly basis whether contributions have been processed accurately and in a timely manner by them. Fidelity provided positive assurance that this was the case for the relevant scheme year.

Fidelity and Capita report on any transactions not processed within their SLAs. The Unilever UK pensions team (UUKP) then investigate the cause of the delay and agree any remedial actions. For example, during the scheme year there were some issues with some core transactions, as discussed further below, and a change to the administration practice was put in place to remedy this.

Contribution checks

The Unilever UK Pensions Finance Team carries out a monthly reconciliation, on a member by member basis to identify any differences between the contributions reported as being paid to the Investing plan by the payroll provider, and the contributions reported as being received by the Investing plan provider. This reconciliation is also carried out at Fund year end. Any differences are reported to the UK Pensions Expert Administration Team for investigation and correction if necessary.

The UUKP also carries out an annual reconciliation of members paying extra voluntary contributions to ensure that members have received the full Company matched contribution.

The UUKP Finance Team carries out a reconciliation of the contributions paid to the legacy AVC providers on an annual basis.

Processes in place with external parties

Fidelity have their own internal processes and controls in place to ensure financial transactions are processed promptly and accurately. These processes include:

- A reconciliation of the contribution file against the payment amount received;
- A reconciliation of payments received against payments invested;
- A check to ensure all deals have been placed, and to identify any undealt cash;
- A report to identify members for whom contributions have not been received over a particular period (where Fidelity would have expected to receive contributions); and
- Contributions are invested automatically according to members' instructions – to ensure speed of investment.

UUKP have further reviewed the processes in place and considered the various metrics that are tracked on a quarterly basis to assess core financial transactions which in summary assess the speed and accuracy of the investment of contributions, transfers in and out, disinvestment on retirement and investment switches.

The results of all the above reporting and monitoring checks are summarised on a quarterly basis in a report that is given to the Audit and Risk Committee of the Trustees.

From carrying out their checks the Trustees are satisfied that the majority of core financial transactions have been carried out promptly and accurately during the Fund year. However, there have been issues with the time taken to invest monies received from transfers in or to pay out transfers following the disinvestment of monies during the scheme year. UUKP have raised this with Capita in quarter one of 2019, who have now created a framework to ensure that future transfers in are not delayed. Capita will put processes in place to check their bank account on a daily basis to identify when transfer in payments have been received. Monies are invested via one day electronic transfer. Capita will also adjust their administration system to help complete transactions on time. We therefore expect that there will be improvements in this area for 2019/20.

Charges and transaction costs

Investing plan

Each Investing plan fund carries a 'total charge', which includes an investment management charge, as well as the costs of administering the Investing plan. This is called the 'Total Expense Ratio' (TER) and is expressed as a percentage of the fund value. Members pay these charges from their account, and the charges will vary from fund to fund. Fidelity take account of the charges when they work out the daily quoted price for each fund.

The TERs applying to the Investing plan funds in the default arrangements and the self-select funds during the Fund year to 31 March 2019 are as shown below.

Type	Fund	Charge during the scheme year to 31 March 2019
Default	Moderate Growth Fund	0.422%
Default	Cautious Growth Fund	0.384%
Default	Cash Fund	0.298%
Self-select	Bond Fund	0.315%
Self-select	Global Equity Fund	0.340%
Self-select	Emerging Markets Fund	0.500%
Self-select	Real Return Fund	0.314%

The Department for Work and Pensions has, from April 2015, stated that the total charges for default funds within DC schemes used for automatic enrolment should be capped at 0.75%. The Trustees are pleased to confirm that the charges for all Investing plan funds are comfortably below this charge cap.

In this statement we are also required to show details of the transaction costs that have applied during the year. Transaction costs are incurred by members and are reflected in the unit-price of the underlying fund. They occur due to:

- Investment managers buying and selling securities (tradable financial assets) underlying the funds, as part of the day to day management of those funds; and
- Members requesting switches between funds, or those switches taking place during automatic switching;

The transaction costs shown below are provided by Fidelity and have been calculated on a methodology known as 'slippage cost'. This compares the price of the stocks being traded when a transaction was executed, with the price at which the transaction was requested. Market movements during any delay in transacting may be positive or negative and may also outweigh other explicit transaction costs. For this reason, overall transaction costs calculated on the slippage method can be negative as well as positive.

Type	Fund	Transaction Costs
Default	Moderate Growth Fund	-0.02%
Default	Cautious Growth Fund	0.00%
Default	Cash Fund	0.00%
Self-select	Bond Fund	0.02%
Self-select	Global Equity Fund	-0.02%
Self-select	Emerging Markets Fund	-0.14%
Self-select	Real Return Fund	0.05%

Legacy AVCs

The data on charges and costs available from AVC providers at the time of production of this statement is shown below. Whilst almost all of the costs and charges information has been received, there are a limited number of gaps in the data currently available and the Trustees are continuing to request this information at regular intervals along with the reasons why information hasn't been produced so far. The Trustees will report on any missing data as soon as the information is available on the Fund's website and the data will also be included in the Chair's statement for 2019/20.

Managers sometimes differ in their methodologies of calculating and presenting information on charges. Additionally, not all managers use consistent terminology when describing costs and charges. In general, Annual Management Charge or 'AMC' refers to investment management and administration costs that are taken by the provider as they invest and administer the AVC policy. Some investment funds will have higher AMCs than others owing to their specialist nature or the complexity in managing them. For example, with-profit funds usually provide guarantees that require complex actuarial calculations and this necessarily entails costs that are not incurred by other types of fund. Total Expenses Ratio or 'TER' generally includes the AMC but includes also additional expenses incurred by the provider such as legal fees, audit fees and marketing fees. While some managers have shown the AMC and TER separately, others have shown only the TER for some funds. In such cases, the Trustees have asked for further disclosure in the interests of transparency but note that the TER is the most important headline figure as it represents the total charges incurred by members other than those arising from buying and selling investments. The term 'Aggregated transaction costs' refer to all of the costs associated with trading (buying and selling) investments.

Charges and transaction costs on some funds, particularly with-profit funds and cash deposit funds, are not always calculated explicitly by providers but are instead incorporated into other calculations such as returns. In some cases, the figures disclosed by providers are therefore estimates or illustrative in nature. Where this is the case, the Trustees have asked the providers for more accurate information on costs and charges.

Additionally, some with-profit providers emphasise that deductions set aside to cover the cost of guarantees depend on factors such as underlying investment performance and can therefore vary in individual years.

The costs and charges can change over time, in particular aggregated transaction costs are prone to vary in individual years depending on the amount of trading activity undertaken on a particular fund and market conditions during trading (see previous explanation of the 'slippage' methodology for calculating transaction costs).

Equitable Life

Fund	Annual Management Charge (p.a.)[1]	Aggregated Transaction Costs (p.a.)[3]
European	0.75%	0.24%
Far Eastern	0.75%	0.16%
Gilt and Fixed Interest	0.50%	0.14%
International	0.75%	0.15%
Investment Trusts	0.75%	0.18%
Managed Fund	0.75%	0.13%
Money	0.50%	0.01%
North American	0.75%	0.01%
Pelican	0.75%	0.37%
Property[2]	1.00%	0.18%
UK FTSE All share	0.50%	0.04%
With profits[4]	1.00%	0.05%

1. Equitable Life has advised that with the exception of the Property fund (see note 2) the total charges impact is calculated by adding the annual management charge and aggregated transaction costs. Also, data is shown for the year to 31/03/2019, with the exception of the With-Profits Fund which is shown to 31/12/2018 (the latest available data at the time of production of this statement).

2. In addition to the charges shown, property management expenses of 0.44% p.a. for the year ended 31 December 2018 were incurred.

3. The costs to date are not calculated on the full arrival price slippage methodology but instead use industry supplied expected spreads for each asset category.

4. Costs shown exclude 0.5% p.a. for the cost of guarantees. These costs are deducted to help ensure Equitable Life has sufficient funds to provide amounts that are guaranteed under the with profits arrangement.

Fund	Annual Management Charge (p.a.)	Aggregated Transaction Costs (p.a.)
Clerical Medical With profits[1]	0.5%	0.21%

1. This fund is managed by Equitable Life

Prudential

Fund	Annual Management Charge[1]	Total Expense Ratio[1]	Aggregated Transaction Costs (p.a.)[3]
Discretionary	0.75%	0.80%	-0.07%
With-Profits Cash Accumulation Fund[2]	n/a	1.00%	0.05%

1. The Annual Management Charge and Total Expense Ratio are based on data available as at 31 March 2019.

2. The fund charge is allowed for in the bonus rates. The bonus rates also allow for charges taken to cover the cost of any guarantees. No disclosure on the cost of guarantees has been provided.

3. The transaction costs reported are to 30 June 2018. Prudential has advised that the data for the annualised period to 31 March 2019 is expected in October 2019.

Standard Life

Fund	Annual Management Charge (p.a.)[1]	Total Expense Ratio (p.a.)[1]	Aggregated Transaction Costs (p.a.)[2]
SL Fidelity Asia Pension Fund	1.50%	1.70%	0.08%
SL Janus Henderson European Growth Pension Fund	1.25%	1.46%	0.07%
SL Merian UK Mid Cap Pension Fund	1.35%	1.36%	Not available
SL SLI UK Smaller Companies Pension Fund	0.90%	1.00%	0.02%
Standard Life Annuity Targeting Pension Fund	0.50%	0.51%	0.07%
Standard Life Ethical Pension Fund	0.50%	0.51%	0.11%

Fund	Annual Management Charge (p.a.) [1]	Total Expense Ratio (p.a.) [1]	Aggregated Transaction Costs (p.a.) [2]
Standard Life FTSE Tracker Pension Fund	0.50%	0.51%	0.03%
Standard Life Index Linked Bond Pension Fund	0.50%	0.51%	0.12%
Standard Life Managed Pension Fund	0.50%	0.52%	0.12%
Standard Life Mixed Bond Pension Fund	0.50%	0.51%	0.06%
Standard Life Overseas Equity Pension Fund	0.50%	0.51%	0.30%
Standard Life Property Pension Fund	0.50%	0.53%	0.09%
Standard Life UK Equity Pension Fund	0.50%	0.51%	0.14%
Standard Life UK Mixed Bond Pension Fund	0.50%	0.51%	Not available
Pension Millennium With Profits Fund [3]	n/a	0.65%	0.02%
Pension With Profit Fund [3]	n/a	1.05%	0.08%
Pension 2 With Profits 2 Fund [3]	n/a	0.65%	0.02%

1. Figures shown based on data available as at 31 March 2019 after the application of a scheme discount – assumed to be 0.50%. Varying discount rates may apply between policies and between members within policies based on factors including fund size.

2. Standard Life has indicated that this cost is an estimate due to some of the data that is necessary for the calculations not yet being available.

3. This fund has no explicit fund management charge. The charge shown includes an allowance for the cost of guarantees and is the deduction Standard Life currently use, for illustrative purposes, in quotations.

Zurich

Fund	Annual Management Charge (p.a.) [1]	Total Expense Ratio (p.a.) [1]	Aggregated Transaction Costs (p.a.) [2]
Aquila UK Equity Index ZP	0.59%	0.60%	0.05%
Newton Global Balanced ZP	0.90%	0.95%	0.06%
American 2 EP	0.90%	0.95%	0.31%
Asia 2 EP	0.86%	0.95%	0.40%
Equity Managed 1 EP	1.15%	1.15%	Not available
Equity Managed 2 EP	0.84%	0.87%	0.18%
European 2 EP	0.84%	0.87%	0.29%
Global Select 1 EP	1.13%	1.13%	Not available
Global Select 2 EP	0.77%	0.94%	0.25%
Japan 2 EP	0.88%	0.94%	0.28%
Long Dated Gilt 2 EP	0.50%	0.51%	0.03%
Managed 1 EP	1.18%	1.18%	Not available
Managed 2 EP	0.79%	0.81%	0.18%
Property 2 EP	0.72%	0.73%	0.42%
Secure 1 EP	1.08%	1.08%	Not available
Secure 2 EP	0.34%	0.35%	0.00%
UK Equity 2 EP	0.80%	0.86%	0.10%
UK Preference and Fixed Interest 2 EP	0.48%	0.50%	0.05%
ZZ Fund Closed New Business UK Opportunities 2 EP	0.90%	0.93%	0.07%
With-Profits EP	0.90%	0.90%	0.04%

1. Annual management charges and Total Expense Ratio figures are as at 31st March 2019.

2. Transaction costs are based on published data at 31st March 2019 but may not in all cases align with that date, as reporting cycles differ between the investment managers that participate on the Zurich investment platform.

Other

As noted above, for some legacy AVC funds the investment managers have advised that there are no explicit costs. Rather, costs are included in the calculation of returns and are not calculated separately. The funds in this category are as follows:

Manager	Fund	Manager disclosure
Prudential	Deposit Fund	There are no explicit charges applied to the Deposit Fund. Interest, once added, is guaranteed and withdrawals from this fund are not subject to any deductions
Santander	Cash deposit fund	Members in the Cash Deposit Fund are invested in cash and receive interest on a daily basis equivalent to 0.25% per annum. This is not like a typical unitised fund - there are no explicit annual management charges and no other maintenance charges on this account. As such, Santander does not provide any cost and charges information for this fund.

Impact of costs and charges - Illustrations

The Trustees must prepare an illustration showing the impact of the costs and charges typically paid by a member of the plan on their retirement savings outcomes. The illustrations below meet the statutory guidance provided by the Department of Work & Pensions.

As well as taking into account the fund charges deducted in relation to investment management and administration services (the Annual Management Charge, or 'AMC'), the illustrations also allow for investment transaction costs.

All of the projected fund values shown are purely illustrative and are based on assumptions set out below regarding future rates of return and inflation that may not be borne out in practice. The illustrative fund values are expressed **in today's terms**. For example, a projected fund value after 30 years of £36,500 means that the fund value at the end of that period would be an amount that has equivalent purchasing power to that of £36,500 today.

The vast majority of members are wholly invested in the Investing plan default investment strategy and the most popular self-select fund is the Global Equity fund. The illustrations have therefore been prepared for these two strategies/funds. The following example illustrations show the impact of charges for members who continue to contribute until they retire (example A, B and C) and for members who have ceased contributions; whether as an active member or due to being a deferred member (example D and E).

In preparing the illustrations, the following assumptions have been made:

- Future inflation assumed to be 2.5% p.a.
- Contributions assumed to increase at 2.5% p.a. where paid.
- The default investment strategy projected growth rates vary with age, given that the strategy's asset allocation changes over the 10 years prior to age 65. The following are examples of average growth rates used;
    - Age 35 = 4.51% p.a. (before charges). Average AMC is assumed to be 0.41% p.a. and transaction costs are assumed to average -0.02% p.a.
    - Age 45 = 4.28% p.a. (before charges). Average AMC is assumed to be 0.40% p.a. and transaction costs are assumed to average -0.01% p.a.
    - Age 55 = 3.58% p.a. (before charges). Average AMC is assumed to be 0.38% p.a. and transaction costs are assumed to average -0.01% p.a.
- Global Equity Fund average growth rate before charges is assumed to be 5.48% p.a. Average AMC is assumed to be 0.34% p.a. and transaction costs are assumed to average -0.02% p.a.

While illustrations for a variety of accumulated fund values and contribution amounts are shown, in practice, the Investing plan's membership profile is such that the individual accumulated fund values and annual contribution inputs vary significantly between members, even for members at the same age. No one accumulated fund value or contribution amount is representative of the membership as a whole or representative of a particular age group. However, the annual percentage rates of investment return, Total Expenses Ratio and transaction costs do not depend on the amount of money held in an individual member's Retirement Account. Similarly, they do not depend on the annual amount of contributions that the member is paying. These percentage rates for any fund are the same for all members who invest in that fund, regardless of the amount of their savings.

Finally, it should be noted that in line with legal requirements, these illustrations are designed only to show the cumulative impact that investment charges and transaction costs can have on accumulated fund values at retirement age. **They are not intended to provide information or guidance to members on whether a particular fund is best suited to their requirements.** In selecting funds, members should have regard not only to charges and potential transaction costs but also to factors such as expected future returns and their capacity for and tolerance of risk.

Default Investment Strategy

Example	Period of investment to age 65 (years)	Assumed starting fund value (£)	Assumed annual contribution (£)	Total fund at retirement (£) in today's terms		
				excluding charges	with charges	% deducted in charges
A (Age 35)	30	0	1,000	38,900	36,500	6.17%
B (Age 45)	20	20,000	2,500	85,500	81,100	5.15%
C (Age 55)	10	40,000	3,500	80,300	78,000	2.86%
D (Age 45)	20	20,000	0	28,400	26,300	7.39%
E (Age 55)	10	40,000	0	44,500	42,900	3.60%

Global Equity Fund

Example	Period of investment to age 65 (years)	Assumed fund value (£)	Assumed annual contribution (£)	Total fund at retirement (£) in today's terms		
				excluding charges	with charges	% deducted in charges
A (Age 35)	30	0	1,000	48,100	45,400	5.61%
B (Age 45)	20	20,000	2,500	103,900	99,200	4.52%
C (Age 55)	10	40,000	3,500	94,300	91,800	2.65%
D (Age 45)	20	20,000	0	36,000	33,700	6.39%
E (Age 55)	10	40,000	0	53,600	52,000	2.99%

Value for members assessment

The Trustees annually assess the extent to which the member borne charges and transaction costs mentioned in this statement represent good value for members of the Investing plan. The Trustees receive input from an external consultant, Mercer, during this assessment. The assessment for the 2018 Plan year considered the following:

- the level of charges borne by members against comparable market alternatives available to the Trustees; and
- the quality of the services received in return for these charges, including investment performance, the likelihood of a fund achieving its objectives in future and administration service quality.

The Mercer assessment of value for members advised that the Trustees can reasonably rate the Investing plan overall as good value in relation to member borne costs and charges using price and performance criteria. In doing so, Mercer benchmarked the Plan's charges not only against other bundled arrangements such as master trusts but also against the charges that might arise were the Trustees to adopt an unbundled approach. Mercer also rated each of the funds in terms of its likelihood of achieving its objectives in future years.

The Trustees are pleased with this assessment and note that following negotiations with Fidelity, the Investing plan will offer members improved value once the newly negotiated fees take effect later in 2019. The table below shows the current and the indicative new TERs.

Type	Fund	Charge during the scheme year to 31 March 2019	Indicative new charge
Default	Moderate Growth Fund	0.422%	0.385%
Default	Cautious Growth Fund	0.384%	0.345%
Default	Cash Fund	0.298%	0.248%
Self-select	Bond Fund	0.315%	0.215%
Self-select	Global Equity Fund	0.340%	0.310%
Self-select	Emerging Markets Fund	0.500%	0.340%
Self-select	Real Return Fund	0.314%	0.215%

Legacy AVCs

A smaller number of members (less than 700) of the UUKPF have DC funds remaining in the legacy AVC arrangements. These AVC funds provide a proportionately small top up to members' main benefits provided through the Final salary plan and for a few members of the Career average plan. The Trustees have similarly assessed value in relation to member borne deductions for these legacy AVC funds, although note that this assessment is necessarily less comprehensive than the detailed assessment conducted in relation to the Investing plan. The reasons for that include:

<u>Incomplete data on costs and charges</u>

Although the Trustees have received data on charges from all providers, a number of them do not calculate or disclose explicit cost and charges information for certain funds, notably with-profit and cash deposit funds. Also, some of the caveats that accompany disclosures on costs and charges (for example, in relation to the 'cost of guarantees' in relation to with-profits) make it difficult for the Trustees to assess the reliability of those disclosures.

<u>Lack of comparability with other legacy AVC arrangements</u>

Few alternative providers of AVC arrangements would be willing to quote detailed terms to enable detailed price comparisons to be made.

<u>Lack of data on quality of funds</u>

As part of a value assessment, the Trustee would wish to assess the quality of the replacement funds from an investment perspective. However, few of the funds under AVC contracts are rated by investment consultants and commissioning a rating for such funds would likely be disproportionately expensive. The Trustees do examine past performance of these funds but note that past performance isn't always a guide to future performance. Notwithstanding these restrictions, the Trustees have made the following observations on value in relation to legacy AVCs:

- While the few cash deposit funds have no explicit charges, the interest awarded is net of charges and appears to offer reasonable value compared to other deposit funds. Also, these members have the option to move these funds to the funds in the Investing plan range if they would like to do so.
- With-profit funds are often not fully transparent in relation to costs and charges. This lack of transparency is evident from the disclosures obtained to date by the Trustees, with some providers stating that they don't calculate explicit charges but rather include them as part of the broader calculations on bonus rates. Also, some providers have mentioned additional charges in respect of the cost of guarantees but have not stated what those costs are. The Trustees will continue to press for additional clarity in relation to the costs and charges borne by these funds. All members of these funds have the option to move their funds to the funds in the Investing plan range if they would like to do so.
- Whilst the majority of Unit-linked funds (but not all) have significantly higher total charges than the funds in the Investing plan range, not all of the unit-linked investment funds are directly comparable with the funds in the Investing plan in terms of risk profile and performance expectations. However, the Trustees wrote to all members with unit-linked funds in 2018 to provide information on the funds they are in and those offered by the Investing plan, which the Trustees believe offer good value; giving members the option to move their funds into the Investing plan. A considerable number of members did take up this opportunity. Some members wished to remain invested in the particular legacy AVC fund that they had selected. However, the option for members to move their unit-linked funds into the Investing plan remains open.

The Trustees are exploring what other information may be obtainable that might help them in forming a better view on value and will continue to ask:

- providers to submit information on their costs and charges
- their investment consultants to provide commentary in relation to unit-linked funds to indicate where charges may be relatively high compared to other comparable legacy AVC arrangements
- their investment consultants to provide information on past performance, just as a helpful indicator of where problems might lie, noting that past performance is not a good indicator of future expected performance

Summary

On the basis of the assessment summarised above, despite the incomplete information available about some of the legacy AVC funds, overall the Trustees are satisfied that the charges and transaction costs borne by members in the Fund offer good value for members and that all members have access to good value funds that address the varying needs for growth, inflation protection, capital stability and liquidity.

The Trustees also considered other Investing plan features that members receive value from, but which are paid for by the Company – such as the plan communications, the at-retirement support, and the cost of maintaining a Trustee board with in-house expertise and external advisers. The Trustees note that these demonstrate the broader elements of good value provided by the Investing plan.

Knowledge and understanding of the Trustees and external support

The Fund has continued to run a training programme to ensure that the Trustees meet the legally required Trustee Knowledge and Understanding ('TKU') standards to enable them to exercise their duties and functions as trustees of the Fund. Training is provided throughout a Trustee's term of office and the Trustees annually review whether their approach to training serves their needs. The main features of this training programme are described below.

On appointment

A new Trustee is required to complete an induction programme which aims to provide the legally required knowledge of pensions, and conversance with Fund documents.

This induction programme takes about two days in total and consists of training from UUKP and Univest on the following aspects:

- An introduction to the UUKPF, its structure and key benefits;
- Overview of the role of a Trustee & Pension Funds;
- Pensions and trust law;
- Funding;
- Investment of assets and Investment strategy; and
- Risk management.

In addition, Trustees are enrolled onto an externally run introductory one or two-day course.

New Trustees complete the induction programme and are encouraged and supported to complete the TPR's online trustee toolkit within the first six months of appointment. The trustee toolkit is an online learning programme in which trustees complete a number of specific modules and assessments in order to be conversant with scheme specific documents and meet the level of knowledge and understanding required by law.

After one year

After 12 months in office, Trustees complete a self-assessment questionnaire to assess their knowledge and understanding of pensions law, investment principles and other areas of knowledge they are legally required to have as well as conversance with scheme documents. Individual plans to address training and development areas are put together at this time for each of the Trustees based on the identified gaps in knowledge. UUKP provide suggestions to individual Trustees as to how to address those gaps and ask for confirmation when the Trustees have carried out the suggested actions. Each Trustee is annually asked to re-consider their self-assessment and progress made to fill any gaps in order to identify any further development activities they individually should undertake in the coming year.

Ongoing training

To understand their role better and the specifics of the Fund, Trustees have access to all Fund documents, Trustee policies and key Fund information. Fund documents include the main documents such as the Trust Deed and Rules of the Fund and the Statement of Investment Principles. Trustees are legally required to have a working knowledge of these documents and to achieve this, the importance of these documents and their purpose are covered during the induction training. In order to identify any gaps in knowledge, the Trustees are asked to self-certify whether they have a working knowledge of these documents and should they have any concerns, UUKP will point the Trustees to the documents to read again or if needed go through the documents with them. As part of the annual training review, the Trustees are reminded to continue familiarising themselves with Fund documents including the Balance of Powers which sets out the key Trustees' powers under the Trust Deed and the Rules.

The Trustee policies cover a range of policies which set out the behaviours and requirements of UUKPF Trustees. These are updated as required and the Trustees carry out an annual review of the policies to ensure they remain appropriate.

The Trustees are regularly sent pensions bulletins to assist them in keeping up to date with current matters, including relevant information about changes to pensions law. Any changes to regulations, regulatory practice or the law impacting on the UUKPF or the Trustees will be highlighted at Trustee meetings. The Trustees are also from time to time advised of relevant external seminars and conferences which they can attend. When particular matters of strategic importance are being discussed at the Committee or Board, on the job training is provided ahead of any decisions.

The Board conducts at least one formal training day annually, facilitated by external advisors, UUKP or the Univest Company, as necessary. Other training sessions are run as and when required.

The Trustees keep logs of training received during the year for each Trustee and the Board as a whole; and ongoing training during Board meetings. During the year, training sessions were held on the following subjects:

- Liability Driven Investment (LDI)
- DC Investment strategy
- ESG and climate change
- Good governance and diversity on the Board
- Institutional approach to climate transition
- Introduction to NEST investments

The skills, experience and external support for the Board

The Board is strengthened by its diverse professional skills and experiences, along with support from external experts and advisers. This helps the Board with the various challenges that its governance must address and in properly carrying out all its duties as Trustee of the Fund.

The Board is supported by four Committees and the Trustees consider the balance of skills and experience when deciding on the membership of the Committees.

The DC Committee has been supported by an independent DC professional throughout the year and an independent investment professional also attends each Board meeting and the Investment and Funding Committee. Unilever's in-house pensions team provides the Board with considerable operational support, with at least one of its senior members attending each Committee and Board meeting. The Univest Company, the in-house investment professionals, provides support to the Board, the DC Committee and the Investment and Funding Committee.

To ensure that that the governance of the Board remains appropriate and the scheme continues to be properly run the Trustees appointed an external facilitator in 2018 to carry out a review of their effectiveness. The review concluded that the governance was strong. A small number of recommendations arose from this review which have been considered and implemented where appropriate.

Tony Ashford
Chairman

Signed:

Date: 9 October 2019

APPENDIX

DC Default Strategy Statement

1. Introduction

This statement is prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. It describes the Trustees' investment principles and arrangements in respect of the default investment option under the DC Section of the Unilever UK Pension Fund ('the Investing plan').

2. Aims and objectives underlying the Default Investment Arrangement

The Trustees recognise that members of the Investing plan have differing investment needs and objectives, and that these may change during the course of members' working lives. The Trustees also recognise that members have different attitudes to risk. The Trustees believe that members should be encouraged to make their own investment decisions based on their individual circumstances. They therefore make available a range of investment options and automatic switching strategies within the framework set out in the Fund rules, to enable members to tailor their investment strategy to their own needs.

The Trustees also recognise that members may not believe themselves qualified to make choices about investment options. The Fund rules provide for a default investment option and specifies the investment objective that comprises its key components. Consistent with the Fund objective the default investment option chosen by the Trustees aims to deliver real returns over members' working lifetimes, whilst mitigating risk through diversification through holding different equity and bond classes, property and cash. It also encompasses a switch into less risky asset classes in the years prior to age 65 with the ultimate objective that funds at retirement are invested in assets broadly appropriate for an individual withdrawing the funds as cash. There are three component funds in the default strategy: Moderate Growth Fund, Cautious Growth Fund and Cash Fund, and their objectives are below:

Fund	Investment Objectives	Policy in relation to investments
Moderate Growth Fund	Achieve a return over the long term (5 years or more) that exceeds the return on the cautious growth fund (albeit with a higher prospect that a negative return could be experienced over the same period than the cautious growth fund)	A pooled fund made available to the Trustee by Fidelity for the purposes of the UUKPF, where unit prices are calculated by reference to a mix of some or all of equities, property, government bonds, corporate bonds, other diversified assets, cash/money market funds, and any other assets with similar investment characteristics as decided from time to time by the Trustee having taken the advice of its investment adviser, with an asset allocation selected to be consistent with the investment objective in the second column.
Cautious Growth Fund	Achieve a return over the long term (5 years or more) that exceeds the return on the cash fund (albeit with a higher prospect that a negative return could be experienced over the same period than the cash fund)	A pooled fund made available to the Trustee by Fidelity for the purposes of the UUKPF, where unit prices are calculated by reference to a mix of some or all of equities, property, government bonds, corporate bonds, other diversified assets, cash/money market funds and any other assets with similar investment characteristics as decided from time to time by the Trustee having taken the advice of its investment adviser, with an asset allocation selected to be consistent with the investment objective.

Fund	Investment Objectives	Policy in relation to investments
Cash Fund	Preserve capital whilst aiming to provide a return on investments similar to that which might be achieved on cash deposits in a bank or building society	A pooled fund made available to the Trustee by Fidelity for the purposes of the UUKPF, where unit prices are calculated by reference to a mix of some or all of cash deposits, money market funds and any other assets with similar investment characteristics as decided from time to time by the Trustee having taken the advice of its investment adviser, with an asset allocation selected to be consistent with the investment objective

In light of the above, the Trustees have adopted the following objectives in relation to the default arrangement:

- To generate a good level of real return over members' working lifetimes, whilst mitigating risk through diversification.

  The default arrangement's growth phase structure invests in the Moderate Growth Fund. This Fund holds a diversified range of assets that is expected to provide long term returns similar to those of equities, but with less volatility.

- To provide a strategy that reduces investment risk for members as they approach retirement.

  As a member's account grows, investment risk will have a greater impact on retirement outcomes. Therefore, the Trustee believes that a default arrangement that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automatic switching over a 10 year switching period before retirement. Initially funds are switched from the Moderate Growth Fund to the Cautious Growth Fund. This gives members' accounts the opportunity to still grow at a reasonable rate and stay 'diversified' – that is, spread across a range of investments. During the last 4 years before retirement age, funds are switched into the Cash Fund.

- To invest members' accounts at retirement in assets that are broadly appropriate for an individual planning to withdraw funds at retirement as cash.

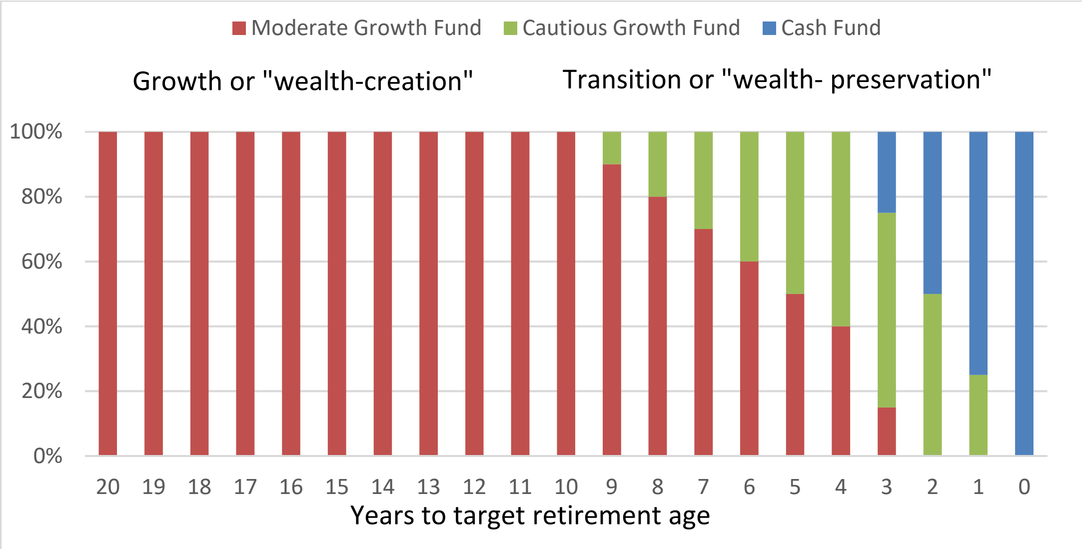
  At age 65, 100% of the member's assets will be invested in the Cash Fund reflecting the fact that most members will have acquired significant DB rights (relative to their DC benefits) and will therefore wish to use their account to provide cash rather than additional income.

- To achieve a market return, subject to fees, broadly equivalent to the composite benchmark (for each Default Fund) which is comprised of the indices of each of the underlying sub funds as outlined in section 8.

The Trustees monitor market performance on a quarterly basis.

3. Investments

Members within the default arrangement are invested in a 100% allocation to the Moderate Growth Fund whilst they are at least 10 years from the target retirement age. As the member approaches retirement, assets are gradually moved to the Cautious Growth Fund, and then the Cash Fund as shown in the switching matrix below.



4. Measurement and management of risk

Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members. In designing the default arrangement, the Trustees have explicitly considered the trade-off between risk and expected returns. The specific risks of which the Trustees take account include, but are not limited to:

Risk of underperformance: a fund offered by the Trustees may not meet the relevant investment objective with regard to performance. This risk is considered by the Trustees and their investment adviser within the ongoing review of the performance of the funds.

Risk of fraud, poor advice or acts of negligence: the Trustees seek to minimise this risk by ensuring that their advisers and third-party service providers are suitably qualified and experienced, that suitable liability and compensation clauses are included in all contracts for professional services and that suitable due diligence is done on a regular basis.

Risk of the default investment option being unsuitable for the requirements of some members: this risk is addressed by giving members a range of options, one of which is the default investment option. Members are provided with a diversified, but limited, range of options which they can choose bearing in mind their attitudes to risk, expectations of returns and intentions with regard to retirement. The Trustees assist members to make suitable choices that may better fit their personal circumstances through communications, including the web portal. Also members in any of the Investing plan's automatic switching arrangements, including the default investment arrangement, are contacted before switching starts.

5. Responsible Investment and Corporate Governance

The Trustees are signatories to the Principles for Responsible Investment (PRI) through the Unilever Pension Funds umbrella agreement. The Trustees believe that investing sustainably allows it to better assess the value and likely future performance of an investment over the medium to long-term. Sustainable investing is about generating a long-term risk adjusted return aligned with the Fund's objectives, whilst at the same time promoting a stable, well-functioning and well governed social, environmental and economic system on which long-term sustainable returns are dependent. The Trustees currently do not take into account any factors they consider to be non-financial. However, this is reviewed on a periodic basis.

Of the environmental factors the Trustees take into account, they believe that climate change presents the greatest risk to the long-term value and security of the Fund's assets. The Trustees believe that these environmental factors, in particular climate change, will have significant and wide-ranging implications for the global economy for the foreseeable future and the potential to impact the dynamics of global growth.

Implementation:

It is the Trustees' policy that all matters are taken into account in the selection, retention and realisation of investments to the extent that they are materially relevant in assessing the future prospects of specific investments, including environmental, social and governance (ESG) considerations.

The assets are invested in pooled funds but the Trustees require all equity managers to have an ESG policy in place and to be signatories to the UN PRI as a minimum. The Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations. Fixed income managers must also take ESG risk factors into account when appropriate. Corporate governance activities have been delegated to the Fund's investment managers or specialist ESG engagement organisations, with the understanding that they will exercise voting rights in the best long term financial interests of the assets that they manage. The Trustees may, from time to time, ask the Fund's managers or specialist ESG engagement organisations to explain their corporate governance policy and practices, and review voting activities.

The Trustees have developed an ESG Multi factor Equity fund with an external manager, which is aligned with the Trustee's Sustainability policy. Due to the importance of ESG, it was decided that this fund should be included within the default investment option.

6. Other policies in relation to the default investment arrangement

The Trustees believe that both actively and passively managed funds have a role to play. Active managed funds are utilised to the extent that the Trustees either have a high level of confidence in the respective investment managers achieving their performance objectives, or they believe risk is better controlled, net of active investment management fees, within that asset class. For this reason the holdings in the Moderate and Cautious Growth Funds are managed using active and passive management.

Assets in the default arrangement are invested in daily traded pooled funds which hold highly liquid assets. This provides members with greater diversification and transparency of value than if the Trustees invested directly in securities. It also simplifies the Investing Plan's administration. The selection, retention and realisation of assets within the pooled funds are delegated to the investment manager in line with the mandates of the funds.

All of the pooled funds used are dealt daily.

The strategic asset allocation of each of the three funds that comprise the default investment arrangement is shown below in section 8.

7. Suitability of the default investment arrangement

The Trustees believe that the above aims, objectives and policies ensure that the default investment arrangement is designed in members' interests. Their reasons are as follows:

- Most members who retire withdraw their account as tax free cash, reflecting the fact that the Investing plan's DC benefits are supplementary to members' DB pension rights and their requirement for a secure income in retirement will be addressed by that component of their Fund benefits.
- Modelling of future outcomes suggests that members will be able to withdraw a significant proportion of their account as tax free cash over the long-term.
- Despite this, members will likely wish to achieve real investment returns for most of their period as pension savers. The use of the Moderate Growth Fund and Cautious Growth Funds address that requirement.

Note that members who intend withdrawing their retirement benefits in other ways, including annuity purchase or income drawdown, have the option of adopting an alternative lifestyle strategy prior to retirement or choosing their own investment strategy.

The Trustees are aware that the pension freedoms effective from April 2015 might result in significant changes to how members choose to withdraw benefits at retirement. They therefore monitor members' decisions and other data items at least annually as part of an ongoing programme for ensuring that the default investment arrangement remains suited to member needs. They also review the investment choices available to members to ensure that those who regard the default arrangement as unsuited to their needs have suitable alternative investment funds to select from.

8. Default Strategy Funds: Manager Structure and Allocations

Moderate Growth		
Public Equities	**64.0%**	
Global Equity (Passive 30% UK/70% Global Inc. Emerging Market hedged to GBP fund)		*55.0%*
Emerging Market Equity (Passive Aquila Connect)		*9.0%*
Real Assets	**10.0%**	
Listed Property (Passive Global Property Securities)		*10.0%*
Growth Fixed Income	**17.0%**	
High Yield (Active)		*8.5%*
Emerging Market Debt (Active Blended Local / Hard Currency Fund)		*8.5%*
Defensive Fixed Income	**9.0%**	
Corporate Bonds (Active Screened UK Corporate Bond Fund)		*9.0%*
Total	**100%**	
Cautious Growth		
Public Equities	**30.0%**	
Global Equity (Passive 30% UK/70% Global Inc. Emerging Market hedged to GBP fund)		*30.0%*
Real Assets	**7.5%**	
Listed Property (Passive Global Property Securities)		*7.5%*
Growth Fixed Income	**12.5%**	
High Yield (Active)		*6.0%*
Emerging Market Debt (Active Blended Local/Hard Currency Fund)		*6.5%*
Defensive Fixed Income	**37.5%**	
Corporate Bonds (Active Screened UK Corporate Bond Fund)		*12.5%*
Fixed Interest Gilts (Passive Over 15 Year Gilt Aquila Connect)		*12.5%*
Index Linked Gilts (Passive Over 5 Year Index Linked Gilt Aquila)		*12.5%*
Cash	**12.5%**	
Cash Active Cash fund)		*12.5%*
Total	**100%**	
Cash		
Cash (Active Cash fund)	**100%**	