

# UNILEVER UK PENSION FUND

## DEFINED CONTRIBUTION ANNUAL 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 used for the Investing plan.

This statement, which covers the period from 1 April 2019 to 31 March 2020, 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 Fund is used as a 'qualifying scheme' for auto-enrolment. 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 life style 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 the review of the default arrangement and its performance)

The Trustees review their aims, objectives and policies in relation to the Investing plan funds at least every three years. The most recent review began in 2018 and was completed on 30 April 2019. 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, performance and the context of the Investing plan being a "top up" arrangement to the Fund's Career average plan benefits. 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 took place in December 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 were aimed at offering members better risk adjusted returns. The transfer of assets required to implement these changes took place in December 2019 and was completed successfully on 18 December 2019.

The Default SIP attached to this statement was updated on 8 January 2020 to reflect the changes to the make-up of the funds described above and was reviewed and approved again on 21 September 2020.

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. The revised fees took effect at the same time the investment changes were implemented in December 2019.

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In 2020 the Trustees, after taking appropriate professional investment advice, agreed to make an additional change (which affects the default investment strategy) to invest the remaining 50% of the global developed equity portfolio into a multi-factor mandate with an ESG overlay. This transition is expected to take place in October 2020.

In addition to the triennial strategy and performance review described above, the Trustees also monitor the performance of the funds in the default arrangement on a quarterly basis. Based on the monitoring conducted during the Scheme year the Trustees are satisfied that the funds in the default arrangement were performing broadly as expected and consistent with their aims and objectives. No changes were made to the funds in the default arrangement as a result.

The table below shows return figures over the previous 1 year and 5 years. Performance of the funds has been significantly impacted by the market volatility in early 2020 as a result of the global pandemic. This means the moderate growth fund has underperformed the cautious growth fund when averaging over both the 1 year and 5 year period (the Moderate Growth fund's objective recognises it has a higher prospect of a negative return than the Cautious Growth Fund which has been the case in the recent volatile market). However, when performance is looked at over periods greater than 5 years the objectives have been met. The performance of the funds is reviewed by the Committee each quarter and will continue to be monitored closely in periods of increased volatility.

Fund	Objective aim	1 year return to 31 March 2020	5 year return to 31 March 2020 (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)	-10.8%	2.7%
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)	-3.0%	3.5%
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	0.6%	0.3%

### 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 and the agreed expectations for service level performance levels. 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

## **UNILEVER UK PENSION FUND DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)**

- Fidelity confirm on a quarterly basis whether contributions have been processed accurately and in a timely manner by them in accordance with the agreed SLAs. 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. As noted further below, there are agreed actions to improve certain administration processes.

### **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. Last year we reported that there were issues with the time taken to invest monies received from transfers in or to pay out transfers following the disinvestment of monies. During 2019 a framework was put in place that aimed to ensure that future transfers were not delayed and improvements have been made with payments being made by same day transfer, however there are still some delays in processing transfers in and out.

A more detailed review of the processes, monitoring and reporting was undertaken earlier in 2020 and identified where the administration processes could be improved. The full impact of the process improvements is expected to be seen in the 2021/22 year.

### **Equitable Life DC funds – Transfer to Utmost Life and Pensions**

Following the policyholders' vote and High Court approval in November 2019, the vast majority of Equitable Life policies were transferred to Utmost Life and Pensions on 1 January 2020. This was the case for the two policies held by the UUKPF Trustees. As part of the arrangement, members who had with profits funds with Equitable Life (excluding Clerical Medical with profit funds) had their funds converted to unit linked funds and in return for the removal of any guarantees attached, they received a one-off uplift to their fund value.

The Trustees, after taking appropriate legal and investment advice, decided that the former with profits funds should, in the first instance, be invested in a Secure Cash Fund, a temporary fund offered by Utmost to assist in the transition of accounts. Members were written to in April 2020 to give them information about the options they had with the long term investment of these former with-profit funds. The Trustees decided that in the absence of any specific member instruction, these pension

## UNILEVER UK PENSION FUND DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)

savings should be transferred to and invested in accordance with the default strategy investment option that applies under the Investing Plan. The bulk transfer from Utmost to Fidelity took place in late June 2020.

### Charges and transaction costs

This section covers charges and transaction costs applicable to arrangements under the Fund.

#### 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.

As explained in the Investing plan review section, lower member charges were agreed with Fidelity and these were in place from 18 December 2019. The table below sets out the TERs that applied to the Investing plan funds in the default arrangements and the self-select funds before this change and the TERs applying from 18 December 2019 to 31 March 2020:

Fund	Charge to 18 December 2019	Charge from 18 December 2019 to 31 March 2020
Moderate Growth Fund*	0.421%	0.374%
Cautious Growth Fund*	0.384%	0.343%
Cash Fund*	0.298%	0.250%
Bond Fund	0.315%	0.215%
Global Equity Fund	0.340%	0.299%
Emerging Markets Fund	0.490%	0.330%
Real Return Fund	0.314%	0.215%

\*The three funds together are used in the default automatic switching facility. However, they are also offered separately as self-select funds or part of other self-select automatic switching facilities.

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.

Fund	Transaction Costs to 31 March 2020
Moderate Growth Fund	0.05%
Cautious Growth Fund	0.04%
Cash Fund	0.00%
Bond Fund	0.01%
Global Equity Fund	0.02%
Emerging Markets Fund	-0.17%
Real Return Fund	0.07%

## UNILEVER UK PENSION FUND DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)

### Default automatic switching facility – Variation of charges and transaction costs

The default automatic switching facility has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. In the Investing plan, the default arrangement members are invested in is 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

This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date, due to the weighting of the funds they are invested in. The annualised charges and transaction costs applicable as at 31 March 2020 (but noting that the charges and costs applicable throughout the scheme year for each fund are set out above) and the weighting of the funds are set out in the table below at various points in the default arrangement.

Years to target retirement date	Weighting of Funds	TER	Transaction Costs
10+ years	100% Moderate Growth	0.374%	0.050%
7 years	70% Moderate Growth 30% Cautious Growth	0.365%	0.047%
4 years	40% Moderate Growth 60% Cautious Growth	0.355%	0.044%
2 years	50% Cautious Growth 50% Cash Fund	0.297%	0.020%
At retirement	100% Cash Fund	0.250%	0.000%

### Legacy AVCs

The data on charges and costs available as at 31 March 2020 from the legacy AVC providers at the time of production of this statement is shown below.

The Trustees have taken all possible steps to obtain the information but not all of the costs and charges information have been received. Where there are gaps in the data currently available 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 make available on the Fund's website the currently missing data as soon as it becomes available

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 also includes 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. 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).

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**DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)**

Equitable Life

The Chair's statement is a report for the whole Fund year, and as such we include below details of funds and their charges with Equitable Life as at 31 December 2019 which is immediately before the transfer to Utmost Life and Pensions took place on 1 January 2020.

<b>Fund</b>	<b>Annual Management Charge (p.a.)<sup>1</sup></b>	<b>Aggregated Transaction Costs (p.a.)<sup>3</sup></b>
European	0.75%	0.21%
Far Eastern	0.75%	0.18%
Gilt and Fixed Interest	0.50%	0.11%
International	0.75%	0.13%
Investment Trusts	0.75%	0.58%
Managed Fund	0.75%	0.09%
Money	0.50%	0.01%
North American	0.75%	0.02%
Pelican	0.75%	0.29%
Property <sup>2</sup>	1.00%	0.15%
UK FTSE All share	0.50%	0.02%
With profits <sup>4</sup>	1.00%	1.04%

NOTES:

- 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.
- In addition to the charges shown, property management expenses of 0.44% p.a. for the year ended 31 December 2019 were incurred.
- 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.
- Costs shown exclude 0.5% p.a. for the cost of guarantees. These costs were deducted to help ensure Equitable Life had sufficient funds to provide amounts that were guaranteed under the with profits arrangement.

<b>Fund</b>	<b>Annual Management Charge (p.a.)</b>	<b>Aggregated Transaction Costs (p.a.)</b>
Clerical Medical With profits <sup>1</sup>	0.50%	0.18%

NOTES:

- This fund was managed by Equitable Life until 31 December 2019

Utmost Life and Pensions

<b>Fund</b>	<b>Annual Management Charge (p.a.)<sup>1</sup></b>	<b>Aggregated Transaction Costs (p.a.)<sup>3</sup></b>
North American	0.75%	Not available
Asia Pacific	0.75%	Not available
European	0.75%	Not available
UK Government Bond	0.50%	Not available
Global Equity	0.75%	Not available
Investment Trusts	0.75%	Not available
Managed Fund	0.75%	Not available
Money	0.50%	Not available
UK Equity	0.75%	Not available
Property <sup>2</sup>	1.00%	Not available
UK FTSE All Share	0.50%	Not available
Secure Cash	0.50%	Not available

NOTES:

**UNILEVER UK PENSION FUND**  
**DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)**

1. Utmost 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.
2. In addition to the charges shown, property management expenses of 0.44% p.a. for the year ended 31 December 2019 were incurred.
3. Despite the Trustees having taken all possible steps to obtain the information, Utmost has been unable to provide the costs detail. The information will be published on the Fund website as soon as it is received.

<b>Fund</b>	<b>Annual Management Charge (p.a.)<sup>2</sup></b>	<b>Total Expense Ratio (p.a.)</b>	<b>Aggregated Transaction Costs (p.a.)</b>
Clerical Medical With profits <sup>1</sup>	0.50%	0.5%	0.21%

NOTES:

1. This fund is managed by Utmost Life and Pensions from 1 January 2020
2. Charges are not explicit and are included in the declared bonus rates. The charges shown are indicative rates provided by Utmost.

Prudential

<b>Fund</b>	<b>Annual Management Charge (p.a.)</b>	<b>Total Expense Ratio (p.a.)</b>	<b>Aggregated Transaction Costs (p.a.)</b>
Discretionary	0.75%	0.78%	0.15%
With-Profits Cash Accumulation Fund <sup>1</sup>	n/a	1.00%	0.11%

NOTES:

1. 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. A 1.00% TER was shown on the 2019 benefit statements as an indication of the total charge that applies.

Standard Life

<b>Fund</b>	<b>Annual Management Charge (p.a.)</b>	<b>Total Expense Ratio (p.a.)<sup>1</sup></b>	<b>Aggregated Transaction Costs (p.a.)</b>
SL Janus Henderson European Growth Pension Fund	1.25%	1.45%	0.16%
SL Fidelity Asia Pension Fund	1.50%	1.69%	0.08%
SL Merian UK Mid Cap Pension Fund	1.35%	1.35%	0.16%
SL SLI UK Smaller Companies Pension Fund	0.90%	0.99%	0.01%
Standard Life Annuity Targeting Pension Fund	0.50%	0.51%	0.10%
Standard Life Ethical Pension Fund	0.50%	0.51%	0.02%
Standard Life FTSE Tracker Pension Fund	0.50%	0.51%	0.06%
Standard Life Index Linked Bond Pension Fund	0.50%	0.51%	0.05%
Standard Life Managed Pension Fund	0.50%	0.52%	0.11%
Standard Life Mixed Bond Pension Fund	0.50%	0.51%	0.08%
Standard Life Overseas Equity Pension Fund	0.50%	0.51%	0.36%
Standard Life Property Pension Fund	0.50%	0.53%	0.19%
Standard Life UK Equity Pension Fund	0.50%	0.51%	0.07%
Standard Life UK Mixed Bond Pension Fund	0.50%	0.51%	0.08%
Pension Millennium With Profits Fund <sup>2</sup>	n/a	1.25%	0.08%
Pension With Profit Fund <sup>2</sup>	n/a	0.65%	0.10%
Pension 2 With Profits 2 Fund <sup>2</sup>	n/a	0.65%	0.08%

NOTES:

1. Annual Management Charges and Total Expense Ratios have been sourced from fund factsheets as at 31 March 2020 and as per last year a 0.5% scheme discount has been applied to the AMC.
2. These funds do not have explicit charges as these are wrapped up in the declared bonuses. These charges include an allowance for the cost of guarantees and are the deductions that Standard Life currently use for illustrative purposes.

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DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)**

Zurich

<b>Fund</b>	<b>Annual Management Charge (p.a.)</b>	<b>Total Expense Ratio (p.a.)</b>	<b>Aggregated Transaction Costs (p.a.)</b>
Aquila UK Equity Index ZP	0.59%	0.60%	0.00%
American 2 EP	0.90%	0.96%	0.19%
Asia 2 EP	0.86%	0.94%	0.35%
BNY Mellon Managed Global	0.90%	0.96%	0.05%
Equity Managed 2 EP	0.71%	0.88%	0.29%
European 2 EP	0.84%	0.94%	0.79%
Global Select 1 EP	1.00%	1.13%	0.27%
Global Select 2 EP	0.77%	0.90%	0.29%
Japan 2 EP	0.88%	0.94%	0.05%
Long Dated Gilt 2 EP	0.37%	0.51%	0.05%
Managed 1 EP	1.00%	1.18%	0.19%
Managed 2 EP	0.63%	0.82%	0.28%
Property 2 EP	0.30%	0.80%	0.21%
Secure 1 EP	1.00%	1.08%	0.01%
Secure 2 EP	0.27%	0.36%	0.02%
UK Equity 2 EP	0.65%	0.86%	0.16%
UK Preference and Fixed Interest 2 EP	0.34%	0.49%	0.07%
UK Opportunities 2 EP	0.75%	0.93%	0.21%
With-Profits EP	0.90%	0.90%	0.07%

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:

<b>Manager</b>	<b>Fund</b>	<b>Manager disclosure</b>
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** and do not need to be reduced further for the effect of future inflation. For example a projected fund value after 30 years of £32,800 means that the fund value at the end of that period would be an amount that has equivalent purchasing power to that of £32,800 today.

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Illustrations have been prepared for the following funds in line with the guidance provided by the Department of Work and Pensions.

- Default investment strategy
- Highest Expected Returns (Emerging Markets Fund)
- Lowest Expected Returns (Cash Fund)
- Fund with the highest charges (Moderate Growth Fund)
- Fund with the lowest charges (Bond Fund)

In addition, we have included the Global Equity Fund as the most popular self-select fund. The Real Return Fund charges are the same as the charges for the Bond Fund, i.e. these are the funds with the lowest charges. We have chosen to prepare the illustrations for the Bond Fund due to it being selected by more members than the Real Return Fund.

The following example illustrations show the impact of charges for members who continue to contribute until they retire (examples A, B, C, D, and E) and for members who have ceased contributions; whether as an active member or due to being a deferred member (examples F and G).

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 18 = 3.79% p.a. (before charges). Average TER is assumed to be 0.37% p.a. and transaction costs are assumed to average 0.01% p.a.
  - Age 25 = 3.76% p.a. (before charges). Average TER is assumed to be 0.36% p.a. and transaction costs are assumed to average 0.01% p.a.
  - Age 35 = 3.69% p.a. (before charges). Average TER is assumed to be 0.36% p.a. and transaction costs are assumed to average 0.01% p.a.
  - Age 45 = 3.55% p.a. (before charges). Average TER is assumed to be 0.35% p.a. and transaction costs are assumed to average 0.01% p.a.
  - Age 55 = 3.13% p.a. (before charges). Average TER is assumed to be 0.33% p.a. and transaction costs are assumed to average 0.01% p.a.
- Emerging Markets Fund average growth rate before charges is assumed to be 5.00% p.a. Average TER is assumed to be 0.33% and transaction costs are assumed to average 0% p.a.
- Cash Fund average growth rate before charges is assumed to be 2.00% p.a. Average TER is assumed to be 0.25% and transaction costs are assumed to average 0% p.a.
- Moderate Growth Fund average growth rate before charges is assumed to be 3.96% p.a. Average TER is assumed to be 0.37% and the transaction costs are assumed to average 0.02%.
- Bond Fund average growth rate before charges is assumed to be 2.10% p.a. Average TER is assumed to be 0.22% p.a. and transaction costs are assumed to average 0% p.a.
- Global Equity Fund average growth rate before charges is assumed to be 5.00% p.a. Average TER is assumed to be 0.30% p.a. and transaction costs are assumed to average 0% 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.

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**DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)**

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 18)	47	0	500	31,200	28,300	9.29%
B (Age 25)	40	0	800	40,200	37,000	7.96%
C (Age 35)	30	0	1,000	34,900	32,800	6.02%
D (Age 45)	20	20,000	2,500	78,700	74,900	4.83%
E (Age 55)	10	40,000	3,500	78,100	76,000	2.69%
F (Age 45)	20	20,000	0	24,700	22,900	7.29%
G (Age 55)	10	40,000	0	42,600	41,200	3.29%

Emerging Markets Fund (highest expected return)

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 18)	47	0	500	44,300	40,400	8.80%
B (Age 25)	40	0	800	54,500	50,500	7.34%
C (Age 35)	30	0	1,000	44,400	41,900	5.63%
D (Age 45)	20	20,000	2,500	97,400	92,900	4.62%
E (Age 55)	10	40,000	3,500	90,900	88,500	2.64%
F (Age 45)	20	20,000	0	32,800	30,700	6.40%
G (Age 55)	10	40,000	0	51,200	49,500	3.32%

Cash Fund (lowest expected return)

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 18)	47	0	500	20,900	19,800	5.26%
B (Age 25)	40	0	800	29,000	27,600	4.83%
C (Age 35)	30	0	1,000	27,900	26,800	3.94%
D (Age 45)	20	20,000	2,500	65,700	63,600	3.20%
E (Age 55)	10	40,000	3,500	72,200	70,800	1.94%
F (Age 45)	20	20,000	0	18,100	17,200	4.97%
G (Age 55)	10	40,000	0	38,000	37,100	2.37%

Moderate Growth Fund (highest charges)

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 18)	47	0	500	33,800	30,500	9.76%
B (Age 25)	40	0	800	43,400	39,800	8.29%
C (Age 35)	30	0	1,000	37,600	35,300	6.12%
D (Age 45)	20	20,000	2,500	84,800	80,400	5.19%
E (Age 55)	10	40,000	3,500	84,000	81,400	3.10%
F (Age 45)	20	20,000	0	26,800	24,800	7.46%
G (Age 55)	10	40,000	0	46,300	44,500	3.89%

**UNILEVER UK PENSION FUND  
DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)**

Bond Fund (lowest charges)

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 18)	47	0	500	21,400	20,400	4.67%
B (Age 25)	40	0	800	29,600	28,300	4.39%
C (Age 35)	30	0	1,000	28,300	27,400	3.18%
D (Age 45)	20	20,000	2,500	66,500	64,700	2.71%
E (Age 55)	10	40,000	3,500	72,800	71,500	1.79%
F (Age 45)	20	20,000	0	18,500	17,700	4.32%
G (Age 55)	10	40,000	0	38,400	37,600	2.08%

Global Equity Fund (most popular self-select 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 18)	47	0	500	44,300	40,700	8.13%
B (Age 25)	40	0	800	54,500	50,800	6.79%
C (Age 35)	30	0	1,000	44,400	42,200	4.95%
D (Age 45)	20	20,000	2,500	97,400	93,300	4.21%
E (Age 55)	10	40,000	3,500	90,900	88,700	2.42%
F (Age 45)	20	20,000	0	32,800	30,900	5.79%
G (Age 55)	10	40,000	0	51,200	49,700	2.93%

**Value for members assessment**

The Trustees are required to assess annually the extent to which member borne charges and transaction costs represent good value for members. The Trustees receive input from an external consultant, Mercer, during this assessment. The Trustees note that value does not just mean achieving the lowest price. Any assessment of value must also consider the overall quality of service. Accordingly, the assessment for the 2019-20 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 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 Plans 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.

Legacy AVCs

A smaller number of members (less than 600) 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:

*Incomplete data on costs and charges*

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

## **UNILEVER UK PENSION FUND DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)**

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.

### *Lack of comparability with other legacy AVC arrangements*

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

### *Lack of data on quality of funds*

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.

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.

Overall Mercer carried out a price assessment of the unit-linked legacy AVC arrangements and concluded that they do not provide good value for money due to the outdated charging structures that apply. As noted above, the option for members to move their funds into the Investing Plan remains open.

### Overall Conclusion

On the basis of the assessment summarised above, with the exception of the legacy AVC funds (discussed above), overall the Trustees are satisfied that the charges and transaction costs borne by members in the Fund offer good value for members, further improved after lower member charges were agreed for the Investing plan, taking effect from 18 December 2019. 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. Under the TKU requirements, each Trustee Director must:

## **UNILEVER UK PENSION FUND DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)**

- Be conversant with the trust deed and rules of the Fund, the Funds statement of investment principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Fund generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as Trustee Director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

The Trustees have measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. 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 and details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement 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 Uninvest 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.

During the year, three new Trustee Directors were appointed. Two of the new Trustees have completed their induction programmes within the first six months of their appointment and one is in the process of doing so.

### **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.

## **UNILEVER UK PENSION FUND DEFINED CONTRIBUTION ANNUAL STATEMENT (continued)**

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 Uninvest Company, as necessary. An annual Investment Training Day is also facilitated by Uninvest Company for the Board. 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:

- ESG and sustainable investment
- Fund manager monitoring and research
- Setting DB Investment strategy
- GMP equalisation
- Actuarial valuation and integrated risk management
- De-risking investment framework
- Risk workshop
- Fraud awareness (Audit and Risk Committee only)
- IORP II (Audit and Risk Committee only)

### **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 Uninvest Company, the in-house investment professionals, provides support to the Board, the DC Committee and the Investment and Funding Committee.

Taking into account the knowledge and experience of the Trustee Directors with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (e.g. investment consultants, legal advisors), the Trustees believe they are well placed to exercise their functions as Trustee Directors of the Fund properly and effectively.

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 were considered and implemented where appropriate. The next review is scheduled for 2021.

Tony Ashford

Chairman, Unilever UK Pension Fund Trustees Limited.

21 September 2020

## 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. We 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 absolute 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 absolute 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.
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.

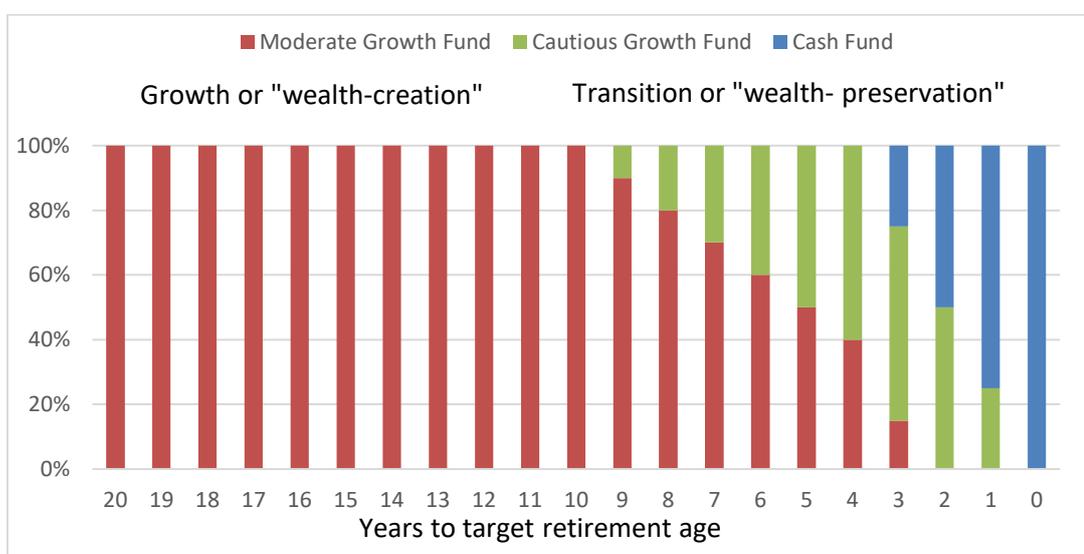
*At age 65, 100% of the member’s assets will be invested in the Cash Fund reflecting the fact that most members will have acquired significant DB rights (relative to their DC benefits) and will therefore wish to use their account to provide cash rather than additional income.*

- 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 we consider to be non-financial. However, this is reviewed on a periodic basis.

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.

Of the environmental factors the Trustees take into account, we 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 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:

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, this has been included within the default investment option. As at 31 March 2020, the ESG Multi factor Equity fund is 50% of the overall Global Developed Equity holdings. This will be increased to 100% by the end of 2020.

## **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 we either have a high level of confidence in the respective investment managers achieving their performance objectives, or we 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. We 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. We 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		
<b>Public Equities</b>		<b>64.0%</b>
<i>Global Equity (50% global equity (market cap)/50% developed market multi-factor ESG)</i>		60.0%
<i>Emerging Market Equity (Passive Aquila Connect)</i>		4.0%
<b>Real Assets</b>		<b>10.0%</b>
<i>Listed Property (Passive Global Property Securities)</i>		10.0%
<b>Fixed Income</b>		<b>26.0%</b>
<i>Multi-Asset Credit (evenly split across two mandates)</i>		26.0%
<b>Total</b>		<b>100%</b>
Cautious Growth		
<b>Public Equities</b>		<b>30.0%</b>
<i>Global Equity (50% global equity (market cap)/50% developed market multi-factor ESG)</i>		30.0%
<b>Real Assets</b>		<b>7.5%</b>
<i>Listed Property (Passive Global Property Securities)</i>		7.5%
<b>Fixed Income</b>		<b>50.0%</b>
<i>Multi-Asset Credit (evenly split across two mandates)</i>		25.0%
<i>Fixed Interest Gilts (Passive Over 15 Year Gilt Aquila Connect)</i>		12.5%
<i>Index Linked Gilts (Passive Over 5 Year Index Linked Gilt Aquila)</i>		12.5%
<b>Cash</b>		<b>12.5%</b>
<i>Cash (Active Cash fund)</i>		12.5%
<b>Total</b>		<b>100%</b>
Cash		
<b>Cash (Active Cash fund)</b>		<b>100%</b>

