

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 Defined Contribution 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.

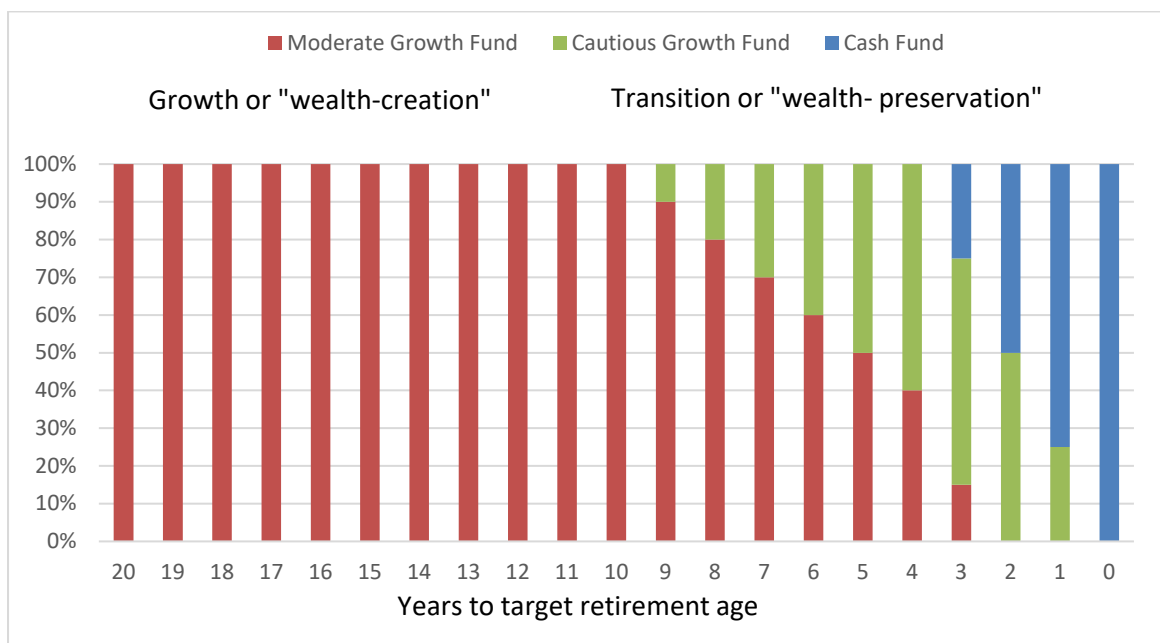
At age 65, 100% of the member’s assets will be invested in the Cash Fund reflecting the fact that most members will have acquired significant Defined Benefit rights (relative to their DC benefits) and will therefore wish to use their account to provide cash rather than additional income.

- 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.

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:

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 Sustainability considerations.

The assets are invested in pooled funds but the Trustees require all equity managers to have a Sustainability 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 Sustainability factors, including climate change considerations. Fixed income managers must also take Sustainability risk factors into account when appropriate.

The Trustees have developed a Sustainable Multi factor Equity fund with an external manager, which is aligned with the Trustee's Sustainability policy. Due to the importance of Sustainability, this has been included within the default investment option and provides all of the Fund's Global Developed Equity holdings.

The Trustees have a Sustainability policy which sets out further details, including further information on the implementation of the policy.

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 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	
Public Equities	64.0%
<i>Sustainable developed market multi-factor equity</i>	58.0%
<i>Emerging Market Equity (Passive Aquila Connect)</i>	6.0%
Real Assets	10.0%
<i>Listed Property (Passive Global Property Securities)</i>	10.0%
Fixed Income	26.0%
<i>Multi-Asset Credit (evenly split across two mandates)</i>	26.0%
Total	100%
Cautious Growth	
Public Equities	30.0%
<i>Sustainable developed market multi-factor equity</i>	27.0%
<i>Emerging Market Equity (Passive Aquila Connect)</i>	3.0%
Real Assets	7.5%
<i>Listed Property (Passive Global Property Securities)</i>	7.5%
Fixed Income	50.0%
<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%
Cash	12.5%
<i>Cash (Active Cash fund)</i>	12.5%
Total	100%
Cash	
Cash (Active Cash fund)	100%