PepsiCo UK Pension Plan ('the Plan')

Annual Implementation Statement for the Year Ended 30 September 2021

1. Introduction

The Trustee has produced a Statement of Investment Principles ("SIP") in accordance with Section 35 of the Pensions Act 1995, the Occupational Pension Scheme's (Investment) Regulations 2005 and subsequent legislation. Over the course of the year running from 30 September 2020 to 30 September 2021 (the "**Plan Year**"), the Trustee has also prepared a Default Arrangement Statement of Investment Principles ("Default SIP").

This statement sets out how, and the extent to which, the SIP and Default SIP have been followed during the Plan Year. This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the relevant versions of the SIP and Default SIP that were in place for the Plan Year. This was the SIP dated August 2020 and the Default SIP dated April 2021.

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

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

Sections 3 and 4 include information on the engagement and key voting activities of the underlying investment managers within each Section of the Plan.

2. Statement of Investment Principles

2.1. Investment Objectives of the Plan

DB

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

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

DC

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

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

2.2. Review of the SIP and Default SIP

During the year to 30 September 2021, the Trustee reviewed the Plan's SIP, taking formal advice from its Investment Consultant (Mercer Limited ("Mercer")). There were no changes made to the SIP during the period.

As already mentioned, the Trustee has prepared a Default SIP over the Plan Year. This covers the default switches that were carried out in 2015 and 2020 that affected DC/AVC members who did not select the alternative investment options that were offered to them at the time.

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

The information provided in this section highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP (dated August 2020) and Default SIP (dated April 2021), relating to the DB and DC Sections of the Plan.

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

Investment Mandates

Securing compliance with the legal requirements about choosing investments

Policy

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

How has this policy been met over the Plan Year

DB

The Trustee has made a number of changes to the structure of the Plan's equity portfolio over the Plan Year, including the introduction of a 20% allocation (as a proportion of developed market equity exposure) to BlackRock's ACS World ESG Equity Tracker Fund. The Trustee received advice from its Investment Consultant regarding the suitability of the Fund prior to the point of investment.

DC

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

Realisation of Investments

Policy

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

How has this policy been met over the Plan Year?

DB

Subject to maintaining the Strategic Asset Allocation ("SAA"), the Trustee has continued to use income derived from the DB Section's assets to meet cashflow requirements where possible, thereby reducing the need for physical disinvestments.

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

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

DC

All funds within the DC Section are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets. As such, assets should be realisable at short notice, based on member demand.

Environmental, Social and Governance (“ESG”)

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

Policy

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

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

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

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

How has this policy been met over the Plan Year?

DB DC

As already mentioned, over the course of the Plan Year the Trustee has established a 20% allocation (as a proportion of the developed market equity exposure) to BlackRock’s ACS World ESG Equity Tracker Fund within the DB Section. This Fund aims to maximise exposure to positive ESG factors and minimise carbon exposure whilst targeting risk and return characteristics similar to those of the broader developed global equity market, thereby introducing an ESG tilt at the total equity portfolio level.

The Trustee intends to review how ESG considerations are integrated into the DC Section’s arrangements more broadly as part of the 2022 investment strategy review.

In order to monitor the extent to which ESG factors are integrated into the appointed investment managers’ decision-making, the Trustee has continued to review the Mercer ESG ratings assigned to the strategies in which the Plan invests as part of regular performance reporting for the DB and DC Sections. In addition, the Trustee has asked managers to comment on these areas when they have presented at meetings.

In addition, over the Plan Year the Trustee agreed for its Investment Consultant to carry out an independent assessment of how well the Trustee is integrating ESG considerations into its overall decision making. The results of the assessment were discussed in Q4 2021, with the Plan attaining an initial rating of ‘B’ on an ‘A++’ to ‘C’ scale. This was broadly consistent with the average rating for pension schemes of a similar size, but above average for the sector. The Trustee has identified a number of actions that it intends to take to improve the Plan’s rating and therefore the extent to which ESG considerations are integrated into its overall decision making.

Voting and Engagement Disclosures

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

Policy

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

How has this policy been met over the Plan Year?

DB DC

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

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

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

The Trustee supports the aims of the UK Stewardship Code and the Plan’ investment managers are encouraged to report their adherence to the Code. The majority of the Plan’s investment managers within the DB and DC Sections are already signatories to the current UK Stewardship Code 2020. Where this is not the case, the managers are working towards signatory status.

Monitoring the Investment Managers

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

Policy

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

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

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

How has this policy been met over the Plan Year?

DB DC

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

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

Policy

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

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

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

How has this policy been met over the Plan Year?

DB DC

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

In February 2021, the Trustee carried out a fee benchmarking exercise for the Plan's DB assets. The exercise summarised the fee arrangements for the Plan and benchmarked them against the fees offered for broadly equivalent products, based on data drawn from Mercer's Global Investment Manager Database. Overall, the fees paid in respect of the DB Section generally offered good value on a peer group comparison basis. As a result of the review and subsequent work, the Trustee was able to negotiate a reduction in BlackRock's fees (for both the DB and DC Sections), resulting in cost savings of c.20%.

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

Monitoring the Investment Managers

Monitoring portfolio turnover costs

Policy

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

How has this policy been met over the Plan Year?

DB

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

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

DC

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

The duration of the arrangements with asset managers

Policy

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

How has this policy been met over the Plan Year?

DB DC

No changes were made to the appointed investment managers during the Plan Year. The Trustee remains comfortable with the Plan’s appointed investment managers.

Strategic Asset Allocation

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

DB

Policy

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

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

How has this policy been met over the Plan Year?

The basis of the Trustee’s strategy is to divide the Plan’s assets between a “Growth” category (comprising assets such as equities, but may include limited exposure to other growth assets), a “Property” category (comprising UK property and high lease to value property) and a "Bonds" category (comprising liability driven investment (“LDI”) assets and investment grade corporate bonds). The SAA is set to achieve the expected return required with an acceptable level of risk.

In December 2018 the Trustee entered into a deed of guarantee with the Company to enhance the employer covenant. The guarantee is conditional on the Trustee maintaining a SAA in line with an agreed Investment Protocol, which can be amended by mutual agreement between the Trustee and the Company. As at the end of the Plan Year, the SAA between the aforementioned categories was 47.5% Growth, 9.0% Property and 43.5% Bonds. This reflects the 2.0% reduction in the allocation to Growth assets and commensurate increase in the allocation to Bonds, which became effective on 1 January 2021.

Within Bonds, the Trustee also amended the strategic allocation between investment grade corporate bonds and LDI asset in order to broadly reflect the prevailing allocation to corporate bonds as at 31 March 2021 (20.5% corporate bonds/23.0% LDI). Having carried out a review of the construction of the Plan’s bond portfolio, the Trustee agreed to place more emphasis on liability matching than on increasing corporate bond exposure for the time being.

The Trustee regards the basic distribution of the assets to be appropriate for the Plan's objectives and liability profile.

Over the Plan Year, the Trustee implemented a number of changes designed to reduce the risk to which the Plan is exposed. In particular:

- Over Q3 2021, the Trustee made a number of changes to the structure of the Plan’s developed market equity portfolio. In addition to the introduction of the ESG mandate, which acted to further align the Plan with PepsiCo’s “Planet positive” ethos and provided some positioning against long-term global trends, the changes included an adjustment to the regional allocation in order to better reflect the global breadth of available equity investments. In addition, the manner in which currency hedging is implemented was amended to deliver a more accurate and lower governance hedge.

- Alongside the equity portfolio restructuring exercise, in June 2021 the Trustee transferred c.£59.5m from the Plan’s equity portfolio to the LDI portfolio in order to tighten the Plan’s asset allocation to the SAA.

Strategic Asset Allocation

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

Policy

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

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

How has this policy been met over the Plan Year?

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

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

A range of asset classes are included within the default investment option, including: equities and money market funds. The strategic asset allocation is set to achieve the expected return required to meet the objective of the default strategy in a risk controlled manner. The strategic asset allocation of the default strategy is reviewed on a triennial basis, with expected risk and return requirements being considered as part of such reviews. The last review was undertaken in June 2019, with the next review due to be carried out in 2022.

A similar set of asset classes as used under the default option (with the addition of index-linked gilts) has been made available for investment via the self-select fund range. Members can combine the self-select funds in any proportion in order to meet their individual needs. A review of the self-select options will form part of the 2022 investment review.

Strategic Asset Allocation

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

Policy (Sections 3.2 ‘Risk’ and 5.2 ‘Risk’)

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

How has this policy been met over the Plan Year?

DB

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

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

DC

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

As already mentioned, the asset allocation of the default strategy is reviewed on a least a triennial basis, in line with regulatory requirements. The date of the last review was June 2019. The review considered the underlying fund structure from a risk/return perspective. The next review will take place in 2022.

3. Engagement Activity

The following are examples of engagement activity undertaken by the Plan's investment managers.

DB DC BlackRock's engagement and vote escalation on compensation yields positive outcomes

A UK self-storage company recently showed a willingness to improve its compensation practices, having had a string of votes against management on executive pay dating back to 2017. Following these votes and BlackRock's multi-year engagements with the company, the company announced it would make changes to its compensation practices.

These changes were reflected in management's updated compensation policy and long-term incentive Scheme, which BlackRock supported; both received nearly 98% shareholder support. The company's revised remuneration policy incorporates changes in line with BlackRock's feedback.

DB Genesis encourages Gruma to improve supply chain practices

Corn is Gruma's most important raw material, which is exposed to both the physical and transition risks attached to climate change; not only do corn yields decrease disproportionately in a warmer climate, but the carbon intensive nature of corn farming could make it the target of future policy changes.

Genesis have encouraged Gruma to adopt best practices within its supply chain, including issuing climate policies and reduction targets for supply chain emissions, as well as working with corn producers to improve emissions and targets. As a result, the company initiated a process to measure its emissions and develop a strategy for reduction.

DB Lothbury engages with Sainsbury's on energy usage

Lothbury's engagement is focused on the portfolios' tenants, with tenant engagement being conducted by asset managers across the Lothbury Property Trust.

Meetings have been held quarterly at managed properties with sustainability being a standing agenda item. Meanwhile, a fit-out and sustainable operations guide is issued to all new tenants.

Over the year, Lothbury has actively engaged with Sainsbury's on their energy consumption output, which resulted in this tenant reducing their energy use.

DB Schroders engages AIG Group on board composition

Schroders engaged AIA Group in Q2 2021 with the objective of increasing female representation on the board. As a result, the company confirmed the appointment of an additional woman to their board, taking the percentage of women on the board to 18%.

DB M&G seeks agreement between HSBC and ShareAction on climate resolution

M&G began this engagement to encourage both HSBC and ShareAction to compromise on a single climate resolution.

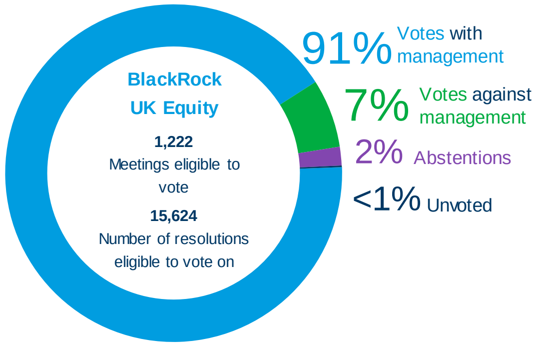
ShareAction proposed a shareholder resolution to phase out fossil fuels on a sector-based approach. However, the HSBC board proposed its own climate resolution, which HSBC believed to be better suited and more aligned to net zero than the ShareAction proposal.

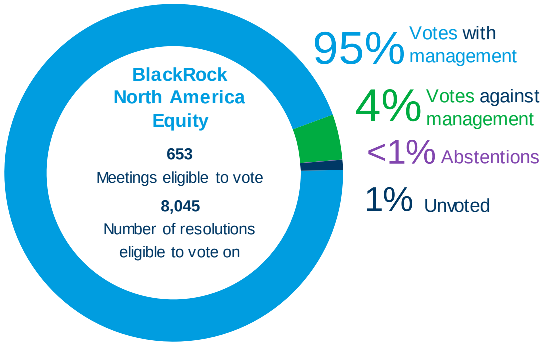
The HSBC resolution included net zero by 2050, with coal powered phase out by 2030 in the EU and by 2040 in other markets, as well as regular reporting on its progress. M&G met with a number of members of HSBC's board and also met separately with ShareAction. M&G made it clear in both meetings that it did not see a large gap between the two resolutions and that it would be better for investors if a single resolution was negotiated. ShareAction and the board of HSBC ended up agreeing to a single resolution.

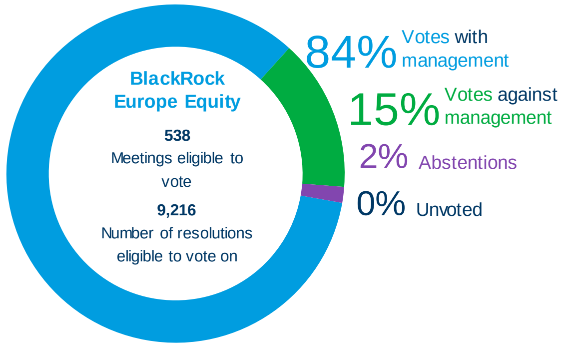
4. Voting Activity during the Plan Year

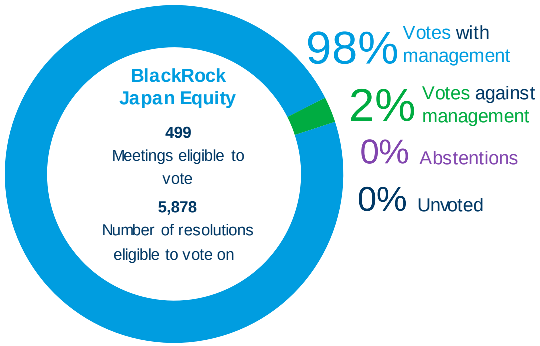
DB

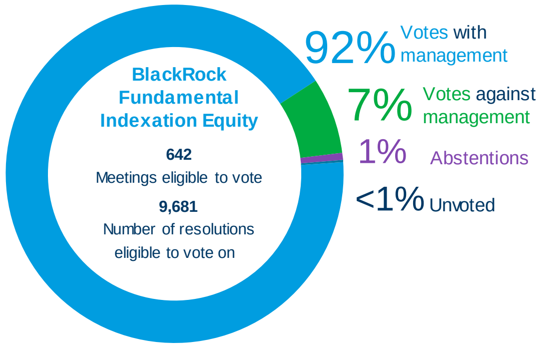
Set out below is a summary of voting activity for the relevant equity strategies within the DB Section of the Plan over the Plan Y.

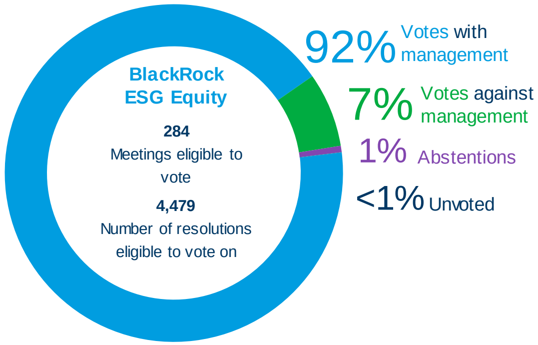


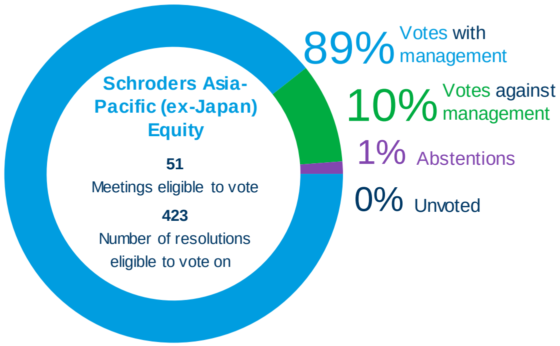


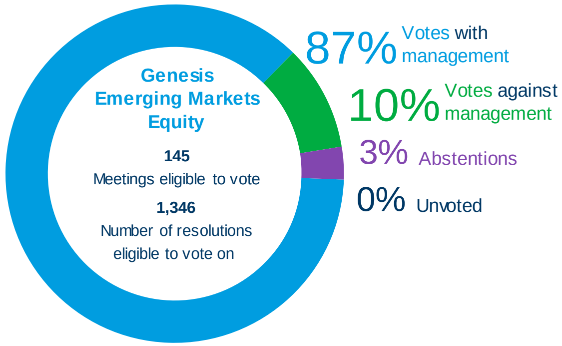












Source: Investment managers. Data may not sum due to rounding.

Sample of the most significant votes DB

There is no official definition of what constitutes a significant vote; managers have adopted a variety of interpretations such as: there is a particular interest in a specific vote relating to an issue; the potential impact on the financial outcome; size of the holding in the fund / mandate; and, whether the vote was high-profile or contorversial.

Manager	Fund	Company	Date of vote	How the Manager voted	Rationale for Manager vote	Final outcome following the vote
BlackRock	UK Equity	BP Plc	12 May 2021	Voted for management proposals on climate strategy (resolutions 1-12) and for the shareholder proposal on climate change targets (resolution 13)	• Supported BP's climate strategy, the Board of Directors oversight of the strategy and the re-election of all directors. • Manager also voted for the climate-related shareholder resolution as a means of reiterating the expectation that BP progressively refines its greenhouse gas emissions reduction targets.	✓ ✗
	North America Equity	Berkshire Hathaway Inc.	01 May 2021	Voted for two shareholder proposals on climate and diversity reporting (resolutions 2 and 3)	• Supported shareholder proposal for reporting on climate-related risks and opportunities because the company does not currently meet expectations for disclosing a plan for how its business model will be compatible with a low-carbon economy. • Also supported shareholder second proposal to publish an annual report assessing diversity and inclusion efforts, as the company does not meet the expectations for disclosure of material diversity, equity, and inclusion policies and/or risks.	✗ ✗
	Europe (ex-UK) Equity	Danske Bank A/S	16 March 2021	Voted against shareholder proposal to file criminal complaint and legal proceeding (resolution 12.1)	• Manager did not believe support was warranted given the ongoing internal and external investigations, regulatory attention and remedial actions underway.	✓
	Japan Equity	BlackRock has not highlighted any significant votes over the year.				
	Fundamental Indexation Equity	Rio Tinto Limited	06 May 2021	Voted for shareholder proposal on climate-related lobbying (resolutions 20)	• BlackRock supported this proposal to signal the importance of the opportunity for Rio Tinto to engage its trade associations to further advance their policy positions in support of the global energy transition.	✓
	ESG Equity	Woodside Petroleum Ltd.	15 April 2021	BlackRock voted against election of Director (resolution 2a)	• BlackRock voted against the longest serving director up for re-election given concerns about the comprehensiveness of the company's current climate risk disclosure.	✗
Schroders	Asia-Pacific (ex-Japan) Equity	BOC Hong Kong (Holdings) Limited	17 May 2021	Voted against management proposal (resolutions 5)	• Manager was against resolution 5 for the approval of issuance of equity or equity-linked securities without pre-emptive rights due to excessive dilution.	✗
Genesis	Emerging Markets Equity	Naspers Ltd.	25 August 2021	Voted against management proposal (resolution 5)	• Voted against resolution 5 for the authorisation of specific repurchase of N ordinary shares because the specific repurchase authority was in addition to the general authority to repurchase up to 20% of the issued N share capital, with no obvious benefit or details of the repurchase set out for investor attention.	✗

✓ resolution passed ✗ resolution **not** passed