DEFAULT ARRANGEMENT STATEMENT OF INVESTMENT PRINCIPLES - APRIL 2021

PEPSICO UK PENSION PLAN

1. Introduction

PepsiCo UK Pension Plan Trustee Limited ("the Trustee"), the corporate trustee of the PepsiCo UK Pension Plan ("the Plan"), has drawn up this Default Statement of Investment Principles to cover the Defined Contribution investments deemed to be a Default by virtue of a bulk switch of assets for members of the Defined Contribution Section of the Plan, and members' Additional Voluntary Contributions (AVCs) under the Plan, which was undertaken without member consent. This Statement is designed to meet the requirements of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005, and the Trustee has been advised by its legal advisers that it incorporates all the requirements of the Act. This Statement is additional to the Statement of Investment Principles for the overarching Plan that was written in August 2020. As required under the Act, the Trustee has obtained and considered appropriate written advice.

This Statement sets out the general principles underlying the Default investment policy within the Defined Contribution section of the Plan. Details of how this policy has been implemented are set out in a separate Investment Implementation Policy Document ("IIPD"), which is not part of the Statement but which can be obtained on request.

2. Overall Policy, Investment Objectives and Risk

The Trustee holds certain Defined Contribution assets on behalf of members of the Plan. These include 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. Given the historic nature of these assets, a Default investment arrangement has not previously been formally established. However, the following investment changes were undertaken without members explicit consent, and as such the receiving funds are deemed to be a Default arrangement.

- In August 2015, members assets in the underlying Global Equity Fund were transferred to an alternative Global Equity Fund
- In January 2020, following the closure of Equitable Life, AVC assets held with Equitable Life were transferred to Utmost Life and Pensions, before being transferred to the Plan's Lifestyle arrangement (if more than 5 years away from Selected Retirement Age) or the Cash Fund (if within 5 year of Selected Retirement Age).

2.1. Investment Objective

The Trustee's objective for the default investment option of the defined contribution 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.

The aims of the default option

- In designing the default investment option, the Trustee has explicitly considered the trade-off between risk and expected returns.
- If members wish to, they can opt to choose their own investment strategy. Prior to the bulk switch of funds, members were invited to make an active investment decision, and can do so at any other future date.
- Assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the profile of members and expectations as to how they will draw on their DC and AVC assets at retirement.
- Assets in the default investment option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a default option that seeks to reduce investment risk as members approach their retirement is appropriate.

2.2. Risk

The Trustee has considered risk from a number of perspectives. These are:

i) The risk that a low investment return over the members' working lives might negatively impact the level of benefits available at retirement;

ii) The risk that relative market movements in the years just prior to retirement might lead to a substantial reduction in the level of benefits which would otherwise be available;

and

iii) The risk that the chosen Investment Manager might underperform the benchmark return against which the manager is assessed.

2.3. Investment Strategy

The Trustee, having taken expert advice, believes that the default investment option (the lifestyle strategy and the underlying constituent funds described in Section 2.4 below) is appropriate to meet the Trustee's objective as set out in Section 2.1 and will address the risks identified in Section 2.2.

2.4. Default investment option

This default investment option aims to generate investment returns, in a risk controlled manner, which are sufficient to provide a reasonable level of retirement benefits for members, given the level of contributions paid into the Plan.

Contributions are initially invested in the Global Equity Fund, with the aim of providing a return above inflation, over the long term. When a member reaches 5 years from their anticipated retirement age, a combination of a change in the investment of contributions and switching of existing funds will reduce the holding in the Global Equity Fund and increase the holding in the Cash Fund in order to provide protection against capital loss, with a view to providing members with a cash lump sum at retirement.

These switches take place annually in March and occur in line with the distributions summarised in the table below:

Number of Years until retirement age	% of assets in Global Equity Fund	% of assets in Cash Fund
5+	100	0
4	80	20
3	60	40
2	40	60
1	20	80
0	0	100

3. ESG, Stewardship, and Climate Change

The Trustee believes that environmental, social, and corporate governance (“ESG”) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

While 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 as set out in 2.1 above.

The Trustee has given appointed Investment Managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with its own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented at least annually.

4. Investment Manager Appointment, Engagement and Monitoring

Details of how the Trustee appoints the Investment Managers, takes advice from their Investment Consultant, and monitors performance are outlined in the main Statement of Investment Principles.

For the assets held in the default strategy, the Trustee specifically reviews the Investment Manager fees and considers portfolio turnover costs as part of the annual Value for Money ("VfM") assessment.

The Trustee is a long term investor and is not looking to change the investment arrangements on a frequent basis.

For Defined Contribtion assets, all the funds are open-ended with no set end date for the arrangement. The Trustee will retain an Investment Manager unless:

- there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager; or
- the manager appointment has been reviewed and the Trustee has decided to terminate.

The Default Strategy is reviewed on at least a triennial basis (along with the self select fund range). This review includes an assessment of the extent to which the investment return (after investment charges) is consistent with the Trustee's aims and objectives. A manager's appointment may be terminated if it is no longer considered to be optimal nor has a place in the default strategy or general fund range.

5. Compliance with this Statement

The Trustee will monitor compliance with this Statement annually. In particular the Trustee will obtain written confirmation from the Investment Managers that they have complied with this Statement and the Trustee undertakes to advise the Investment Managers promptly and in writing of any material change to this Statement.

6. Review of this Statement

The Trustee will review this Statement following the triennial review and in response to any material changes to any aspects of the investment arrangements detailed above or circumstances which it judges would have a bearing on the Statement. Any such review will again be based on written, expert investment advice.

Signed on behalf of PepsiCo UK Pension Plan Trustee Limited

Signed: ____

Date: ____

Signed by David Gleave, Chair of Trustee, on 28 April 2021