PepsiCo UK Pension Plan
Chair's Statement

Annual statement regarding governance

Under legislation set out in regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustee of the PepsiCo UK Pension Plan (the 'Plan') is required to prepare a statement (the 'Statement') on governance in the annual report.

This document sets out the Statement covering the period 1 October 2018 to 30 September 2019, in respect of the legacy money purchase and additional voluntary contribution ("AVC") arrangements within the Plan.

Lifestyle investment option

There is no legislative requirement to provide a default investment option for a legacy money purchase arrangement as the Plan is not being used as a qualifying scheme for automatic enrolment purposes. However, the Trustee does make available a lifestyle investment option.

The lifestyle investment option initially invests in the BlackRock Aquila Life (30:70) Currency Hedged Global Equity Index Fund, until a member is five years from their selected retirement date. Thereafter, a combination of a change in the investment of contributions and switching of existing funds will reduce the holding in global equities and increase the holding in the BlackRock Aquila Life Cash Fund, such that at a member's selected retirement age they are invested 100% in the Cash Fund, which reflects how a typical member takes their money purchase benefits from the Plan.

In accordance with the Administration Regulations, the Trustee has appended the latest copy of the statement of investment principles (the 'SIP') prepared for the Plan, dated April 2019.

The Trustee will continue to monitor the lifestyle investment option and will make amendments as appropriate based on analysis of the likely requirements of Plan members. The Trustee reviewed the lifestyle option in June 2019, no changes were made as a result of this review as they concluded that the lifestyle remained appropriate for the member demographics.

Requirements for processing financial transactions

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately.

Core financial transactions are (broadly):

- Investment of contributions made to the Plan by members and their employer(s);
- Transfers into and out of the Plan of assets relating to members;
- Switches of members' investments between different funds within the Plan; and

- Payments from the Plan to or in respect of members (e.g. payment of death benefits).

The Trustee operates a system of internal controls aimed at monitoring the Plan's administration and management. Included in this system are mechanisms for ensuring the prompt and accurate processing of financial transactions such as:

The Trustee maintains a **Risk Register**, which sets out the key risks for the Plan and its membership.

The **Schedule of Contributions** sets out timescales for the Company to remit monthly contributions to the Plan. These timescales and processes are reviewed by the Company's internal audit and its findings shared with the Trustee.

The Trustee has delegated administration of the Plan to Mercer (formerly known as JLT) and has agreed minimum timescales with its administrators for all services, including core financial functions. The administration reports produced by Mercer are reviewed **quarterly** by the Trustee.

The agreed service levels are detailed below:

Tasks relating to Core financial transactions	Agreed Service Level (days)
Death in Service	1
Deferred Leavers	5
Retirement Quotes	5
Transfer-Out Quotes (incl. divorce)	10
Transfer Settle	10

Agreed timescales are built into the administration workflow systems and monitored on a daily basis by the administration team. Compliance oversight reports are generated to ensure benefit payments are being made in accordance with SLA's. From 1 October 2018 to 30 September 2019, a service level of 97% was achieved by Mercer on the items listed above.

During the Plan year, the administrator had the following additional arrangements in place to ensure that core financial transactions are processed promptly and accurately:

- Receipt of contributions are monitored to ensure they are received both within agreed scheme and statutory timescales. Late payment is escalated and quarterly compliance is reviewed by the Trustee.
- DC contributions are allocated in line with member's instructions, with any differences investigated and followed up. This process is monitored to ensure contributions are processed in a timely manner with independent peer review evidenced via a checklist.
- Member disinvestments/switches are processed only on written request with the investment instructions reviewed by the administration team and approved by the Financial Control Team (FCT). Confirmation of the transaction is peer reviewed and evidenced via a checklist.
- Detailed records are maintained tracking at transaction level, to ensure the units on the administration system match those held by Fund Managers. Monthly reconciliations are carried out by the FCT who liaise with the administration team regarding any actions required.

- CASHFAC is used to manage receipts and payments which go through a three stage process-input (including appropriate evidence), process and release which enforces segregation of duties between inputting and authorising / releasing transactions. Each transaction, including the parties involved are automatically recorded.
- DC Bank accounts are monitored daily, with details of the transactions sent to the administration team. Where a transaction cannot be identified/actioned the administration team will investigate, all such transactions are detailed on the Payment Control by the FCT and monitored.
- Independent peer review where prompted by transaction checklists or where required by manual intervention of an automated process is evidenced by either a signed off and completed checklist or by the audit trail on the workflow system.

As part of a wider review of the Plan's general administration, the Trustee receives the Plan administrator's assurance report on internal controls. For the Plan year, the report received was for the period 1 January to 31 December 2018 and included the Independent Service Auditor's opinion that, in all material aspects, its controls were suitably designed, and those tested operated effectively.

The Trustee also makes use of professional advisers:

- Mercer Limited has been appointed by the Trustee to provide investment consultancy services.
- Barnett Waddingham LLP has been appointed by the Trustee to provide general pension consultancy services.
- The auditor to the Plan is Grant Thornton UK LLP, who perform spot checks to ensure that contributions are paid in accordance with the Plan's rules.

The Trustee is satisfied that the Plan's core financial transactions have been processed promptly and accurately during the period to which this Statement relates. The Trustee is committed to monitoring service on a regular basis to ensure that members receive service in line with expectations and there were no material issues identified during the Plan Year.

Charges and transactions costs

As required by the Administration Regulations, the Trustee is required to report on the charges and transactions costs for the investments used in the lifestyle arrangement and their assessment on the extent to which the charges and costs represent good value for members.

Transaction costs are the expenses associated with a member trading in and out of a fund as well as the investment manager trading a fund's underlying securities, including commissions and stamp duty.

The transaction costs provided by the Plan's investment managers have been reported separately to the Total Expense Ratio (TER). The TERs include the Annual Management Charge (AMC) and other expenses associated with the running and management of the funds (which will vary slightly from time to time). The charges are stated as at September 2019.

The total charges payable under the lifestyle investment strategy will vary depending on the stage that each member has reached in the lifestyle arrangement's de-risking process:

Investment Phase	Underlying investment fund	TER (%p.a.)	Transaction Costs (%p.a.)
Growth	BlackRock Aquila Life (30:70) Global Equity Index Fund (currency hedged)	0.162	0.007
De-risking	BlackRock Aquila Life Cash Fund	0.134	0.011

Source: BlackRock as at 30 September 2019

The following provides information on the charges and transactions costs applicable to all non-lifestyle investment choices:

Underlying investment fund	TER (%p.a.)	Transaction Costs (% p.a.)
BlackRock Aquila Life Over 5 Year Index Linked Gilt Index Fund	0.104	0.049

Source: BlackRock as at 30 September 2019

In addition to the investments held by BlackRock, as at the end of September 2019 there were additional With-Profits legacy investments held with Prudential, Equitable Life, Aviva (Formerly Friends Life) and Standard Life. These were all closed to new investment.

The Trustee delegates the responsibility for running these money purchase arrangements to the respective providers, with over-riding administration provided by Mercer.

The Trustee's annual audited report and accounts include reference to money purchase contributions and investments and the Trustee undertakes an annual monitoring review and receives ad-hoc updates, where necessary.

As at 30 September 2019 the Equitable Life With Profits fund had an Annual Management Charge of 1% p.a. and a transaction cost is 1.036% p.a. From 1 January 2020 members' funds were transferred to Utmost Life and Pensions, with the With Profits funds being converted to unit linked funds in Utmost's secure cash fund, including an uplift for the loss of any guarantees. The high transaction costs were a result of Equitable changing the underlying mix of assets over the period to ensure the uplift was the best it could be prior to the transition to Utmost.

The charges for the Standard Life With-Profits Funds are reflected in the size of non-guaranteed bonuses for each fund, the estimated underlying transaction costs provided for the Standard Life Pension With Profits One Fund and for the Standard Life Pension With Profits One 2006 Fund are 0.059% p.a.

Aviva have confirmed that the AMC (there are no additional expenses) for both the Aviva FP With-Profits Sub-Fund (NGP Series 1) and the Aviva FP With-Profits Sub-Fund (NGP Pre Demutualisation) is 0.55% p.a. and that the transaction costs for these funds are not incurred by members (and therefore have not disclosed them).

Prudential have confirmed there is an implicit scheme charge of 0.65% which is made through the declared bonus. There is also an explicit scheme charge of £500.00 p.a. which is invoiced to the Trustees.

There is also a Common Investment Fund (CIF) which is a notional fund with the majority of the DC assets representing legacy underpins for Pepsi-Cola UK Scheme members as well as a small number of members with a DC holding in respect of converted legacy DB benefits. Transaction cost and charges information is not currently readily available for the CIF as the unit price is calculated by the Plan accountant with reference to the overall investment performance of the DB scheme assets. The Trustees will work with their advisors to assess what further transparency can be provided in future Chair's Statements.

Illustration of the effect of transaction costs and charges on members' benefits.

Using the charges and transaction cost data provided by the various providers and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, the Trustee has included an illustration showing the impact of contributions on the growth of the Global Equity Fund. We have not assumed any contributions for the other illustrations, as the Global Equity Fund is the fund to which the majority of Additional Voluntary Contributions are paid. In order to ensure a comparable illustration of the impact of charges and costs the illustrations are based on the youngest member age of 36, using a starting pot size of £15,500 based on average fund size across the funds invested with BlackRock.

An illustration has not been undertaken for the Equitable Life With Profits Fund as following the move to Utmost Life and Pensions, the Trustee is currently considering the future arrangements of these assets and therefore have concluded that including projection at this time would not be appropriate.

Projected Pension Pot (in today's money)

Year	BlackRock Global Equity (most popular and highest return)- with contributions being paid of £3,000 per annum		BlackRock Global Equity (most popular and highest return)- with no contributions being paid		BlackRock Cash Fund (lowest investment return)- with no contributions being paid	
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
0	£15,500	£15,500	£15,500	£15,500	£15,500	£15,500
1	£19,007	£18,975	£15,966	£15,939	£15,207	£15,185
3	£26,341	£26,224	£16,941	£16,855	£14,638	£14,575
6	£38,191	£37,885	£18,516	£18,329	£13,824	£13,705
9	£51,142	£50,565	£20,237	£19,931	£13,055	£12,886
12	£65,297	£64,354	£22,118	£21,673	£12,328	£12,117
15	£80,767	£79,349	£24,175	£23,568	£11,643	£11,394
18	£97,676	£95,654	£26,422	£25,629	£10,995	£10,713
21	£116,157	£113,385	£28,878	£27,869	£10,383	£10,074
24	£136,356	£132,666	£31,563	£30,306	£9,806	£9,472
27	£158,433	£153,633	£34,497	£32,955	£9,260	£8,907
29	£174,279	£168,620	£36,603	£34,849	£8,914	£8,549

Source data: BlackRock and Mercer, calculated by Mercer

Year	BlackRock Bond Fund (lowest fees)- with no contributions being paid		Lifestyle Strategy- with contributions being paid of £3,000 per annum		Lifestyle Strategy - with no contributions being paid	
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
0	£15,500	£15,500	£15,500	£15,500	£15,500	£15,500
1	£15,414	£15,391	£19,007	£18,975	£15,966	£15,939
3	£15,245	£15,175	£26,341	£26,224	£16,941	£16,855
6	£14,994	£14,857	£38,191	£37,885	£18,516	£18,329
9	£14,747	£14,546	£51,142	£50,565	£20,237	£19,931
12	£14,504	£14,241	£65,297	£64,354	£22,118	£21,673
15	£14,266	£13,943	£80,767	£79,349	£24,175	£23,568
18	£14,031	£13,651	£97,676	£95,654	£26,422	£25,629
21	£13,800	£13,365	£116,157	£113,385	£28,878	£27,869
24	£13,573	£13,085	£136,356	£132,666	£31,563	£30,306
25	£13,498	£12,993	£142,149	£138,157	£32,203	£30,870
26	£13,423	£12,901	£146,654	£142,394	£32,541	£31,144
27	£13,349	£12,810	£149,757	£145,269	£32,563	£31,117
28	£13,276	£12,720	£151,381	£146,715	£32,267	£30,788
29	£13,202	£12,631	£151,494	£146,705	£31,657	£30,163

Source data: BlackRock and Mercer, calculated by Mercer

Please refer to the notes overleaf for important information about the assumptions used in the illustration above.

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. The gross investment return assumptions take into account both transaction costs and ongoing fund expenses
3. The starting pot size is assumed to be £15,500
4. For the first illustration in respect of the BlackRock Global Equity Fund contributions of £3,000 are assumed per annum, which is the average for the contributions paid per member as at 30 September 2019. No further contributions are assumed for the rest of the illustrations.
5. No salaries have been taken into account for these illustrations.
6. Values are estimates and are not guaranteed
7. The projected growth rate for each fund are as follows:
   - BlackRock Global Equity Fund (Most Popular with Highest Expected Return): 3.01% p.a. gross expected real return above inflation (growth phase for lifestyle).
   - BlackRock Cash Fund (Lowest Return): -1.89% p.a. gross expected real return relative to inflation.
   - BlackRock Bond Fund (Least Expensive): -0.55% p.a. gross expected real return relative to inflation.

Security of Assets

The Plan has undertaken a review of the financial protections available to members in the unlikely event of losses caused by the insolvency or other failure of one or more companies involved in managing the Plan's investments.

As a result of this review, which included input from the Trustee's legal and investment advisors, the Trustee is satisfied with the level of protection afforded to DC assets.

Value for Members

In accordance with regulation 25(1) (b), the Trustee undertook a review of the charges and transaction costs incurred by members during the period in order to ascertain whether or not they represent good value for members, relative to peers and alternative arrangements that are available.

There is no legal definition of "good value", so the process of determining good value is a subjective one. "Value" is not a straightforward concept to quantify and can be open to broad interpretation. The value for members assessment examines the current investment management charges relative to standard institutional fees for equivalent size mandates, Mercer Manager Research Ratings and historical performance. Where funds offered to members are highly rated by Mercer, are being offered at a competitive fee rate, and are performing in line with their objectives over the longer term, they can be considered to be offering good value for money for members. The value for members assessment covering the period to 30 September 2019 covered the following aspects (including value for money):

- Investment charges for funds (where reported), when benchmarked against comparable funds;
- Net of fees investment performance;
- Investment fund range and ratings; and
- Additional services that members benefit from.

Each investment manager will incur underlying transaction costs associated with purchasing and selling individual securities (such as equities or bonds). Currently, reporting is somewhat fragmented and analysis of transaction costs is not possible as the data does not allow like-for-like comparison. The Trustee, with assistance from their advisors, will look to comment on transaction costs compared to the wider industry once this data becomes uniformly available and include this in future value for member assessments.

The review, undertaken by Mercer, concluded that the Plan's overall benefits represent **good value for members** in comparison to the costs payable by members and the additional services they receive. The main reasons underpinning this conclusion include:

- The TER's for the BlackRock funds are well below 0.75% (the charge cap for DC arrangements being used for auto-enrolment) with the AMC's falling within the lower quartile compared to asset class universes;
- Performance of the passive BlackRock funds have been in line with their benchmarks;
- All administrative costs are met by the Plan.

As part of this review the Trustee also considered the CIF and the With Profits AVC arrangements held with the various AVC providers.

The Trustee concluded that the CIF provided reasonable value for money because whilst the CIF lacks transparency compared to typical DC funds, it is invested in 'A' rated funds and has produced reasonable performance since inception. In addition, members benefit from the fee leveraging of the DB Assets.

Whilst the Trustee considered the With Profits Funds as part of their assessment, they considered it inappropriate to reach a general conclusion on value for money from the With-Profits Funds, as this will vary by member as follows:

- Actual performance, net of charges, is only ever known upon maturity/surrender, after any augmentation for guaranteed terms and after the effect of 'smoothing'. Payouts on surrender and maturity will reflect all charges incurred, though they are not separately identified.

- Providing a comparison between one With-Profits Fund and its peers is extremely difficult. Each With-Profits fund offers different terms and guarantees and, will invest very differently from one another, which in turn impacts the performance received through payouts. A specific With-Profits Fund will often provide different guarantees dependent on when a member started contributing or when each contribution was actually invested. The available universe of With-Profits Funds is not sufficiently alike to enable relative assessments based on just past or even potential performance.

- Assessing the value for money of a With-Profits Fund is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that a With-Profits Fund provides guarantees; whether that is a guaranteed pension, investment return or capital security.

The Plan also provides a number of other services to members at no cost. These additional services include Plan governance related costs, which include oversight of the Plan by the Trustee and their advisers and furthermore, includes support from the internal team at PepsiCo HR/Benefits.

The fact that members are not required to contribute to other charges greatly reduces the cost impact and represents a significant element of the value for money offered to Plan members.

DC Code of Practice

During the Plan year, the Trustee has reviewed the actions they take in meeting the expectations of the Pensions Regulator, as set out under its new **DC Code of Practice 13** for the governance and administration of money purchase pension schemes. The Code sets out the standards of conduct and practice that the Regulator expects trustee boards to meet in complying with their duties in legislation.

It was duly noted that the Trustee broadly fulfils these expectations. Where the Trustee identified improvements to the way it works, they have put in place an action plan to achieve enhancements and these actions have been included within their ongoing planning.

Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Plan.

The Trustee Directors have a working knowledge of the Trust Deed and Rules, the current Statement of Investment Principles, as well as knowledge of all documents setting out the Trustee's compliance. Details are provided in the table below, including the actions undertaken by the Trustee Directors to ensure they have sufficient knowledge and understanding of the law relating to pensions and trusts and relevant principles relating to funding and investment.

Requirement	How Met
Trustees must have appropriate knowledge and understanding of the law relating to pension and trust law as well as relevant principles relation to the funding and investment	The Trustee Directors consider their 3 year rolling training plan annually each March, which includes specific consideration of whether any further training is required in respect of these statutory areas. In addition, the Trustee receives updates from its advisers at regular Trustee and Sub-Committee meetings and throughout the year to keep abreast of recent developments in these areas. Trustee Directors are also required to complete the Pension Regulator's Trustee Tool Kit and any new/revised relevant modules released. At each of their meetings, the Directors consider a report that summarises forthcoming changes to regulations, their potential impact on the Plan and the actions that are required to ensure compliance. The Trustee Directors view these regular and ongoing training opportunities as an essential part of expanding their combined knowledge to exercise their functions as Trustee of the Plan. During the Plan Year the Trustee Directors undertook ongoing training both as a group within the regular meetings and individually including:

	- DC Code of Practice requirements; - Briefings on forthcoming changes to Pensions law and their possible impact on the Plan, for example Competitions Market Authority Review, ESG requirements for Statement of Investment Principles; - Training from their legal advisors on their legal duties as well as the roles of their advisors and formal documents.
Trustees must be conversant with the Scheme's own documentation including Trust Deed and Rules, Statement of Investment Principles and current policies	The Trustee's annual review of their training requirements includes specific consideration of whether any further training is required in respect of these documents. During the Plan Year the Trustee Directors: - Considered and updated their Statement of Investment Principles in light of the new requirements around Environmental, Social and Governance considerations; - Considered and updated a number of their policies, including; GDPR, data protection and absence and ill health policy. In addition the legal adviser reviewed the Internal Dispute Resolution Procedure and conflict policies with no changes being recommended - Considered the Trust Deed and Rules in relation to discretionary decisions - Received training on their Trust Deed and Rules from their Legal Advisors; - Received training on their online document storage portal.
Knowledge and resources generally	Following the Plan year there was a new Trustee Director appointed. There is a structured induction process for new Trustee Directors over 6 months which includes: - Training from the Plan's legal advisors on Trust Law and conflicts of interest. - Spending an hour with the Chair for a high level overview of the Plan and talk generally about Board composition and answer any questions - Attend a one-day introduction course on the duties and responsibilities of a scheme trustee. - Completing the Pensions Regulator's trustee toolkit. In addition, new Trustee Directors undertaken an orientation of the Plan's online document repository so they can familiarise themselves with the Plan documentation and policies. The Board comprises individuals with diverse professional skills and experiences, reflecting the varied nature of the challenges that its governance must address. The Trustee maintains a training log that sets out individual and whole-board based training activity. The Trustee's professional advisors attend all meetings and are asked to input into the agenda.

The advice received by the Trustee Directors along with their own knowledge and experience, allows them to properly exercise their function as Trustee. During the Plan year the Trustee has received legal, accounting, investment and consulting advice as and when required.

Chair’s declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together ‘the Regulations’) and I confirm that the above statement has been produced by the Trustee of the Pepsico UK Pension Plan to the best of our knowledge.

David Gleave, Chair of Trustee
This Chair’s Statement was signed on 15th April, 2020 by the Chair of the Trustee, David Gleave.

Appended as separate document on the site:
Statement of Investment Principles effective April 2019.