

STATEMENT OF INVESTMENT PRINCIPLES - SEPTEMBER 2023 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 Statement of Investment Principles (“the Statement”). 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.

As required under the Act, the Trustee has obtained and considered appropriate written advice. In preparing this Statement, the Trustee has also consulted PepsiCo, Inc. (“the Company”), as Principal Employer of the Plan and also as designated representative of the employers of the Plan.

This Statement sets out the general principles underlying the Plan’s investment policy. Details of how this policy has been implemented are set out in a separate Investment Implementation Policy Document (“IIPD”) and ESG Policy, which are not part of the Statement but which can be obtained on request.

2. Plan Governance

A brief overview of the various parties involved in the Plan’s governance structure is set out below. The Trustee has taken steps to ensure that all parties are aware of their responsibilities under the Bribery Act (2010) and that conflicts of interest are declared.

2.1. The Trustee

The Plan’s assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Plan’s trust deed and rules. The Trustee is responsible for the investment of the Plan’s assets. The Trustee takes decisions on a number of issues, such as the Plan’s investment strategy and the appointment of the Investment Managers, but delegates all of the day-to-day management and decision-making to professional investment managers.

2.2. The Investment Sub-Committee

The Trustee has appointed an Investment Sub-Committee (“ISC”) to advise the Trustee on all investment matters relating to the Plan, including setting of the Plan’s asset allocation as well as selection and monitoring of the Investment Managers. The composition and powers of the ISC are set out in their Terms of Reference. The ISC meets quarterly or more frequently if necessary, to consider any changes that may be beneficial to the Plan and to monitor the Plan’s investment arrangements.

2.3. The Investment Consultant

An Investment Consultant has been appointed to the Trustee and ISC. The details of the Investment Consultant’s appointment, in terms of both obligations and remuneration, are contained in a signed agreement between the Trustee and the Investment Consultant. The Investment Consultant is required to provide the Trustee and ISC with sufficient information to ensure that they are making informed decisions and that they can monitor those that they delegate.

Further details of the appointed Investment Consultant can be found in the IIPD.

2.4. The Investment Managers

The Trustee has chosen to delegate all the day-to-day management of the Plan’s investments to Investment Managers.

The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Plan’s investments and that they are carrying out their work competently.

The Trustee regularly reviews the continuing suitability of the Plan’s investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. Further details on the appointment, engagement and monitoring process for managers is provided in Section 8.

Details of the mandates for the appointed Investment Managers can be found in the IIPD.

2.5. Custody

The Plan’s custodians provide safekeeping of the Plan’s assets and perform the associated administrative duties.

Details of the Plan’s custodial arrangements can be found in the IIPD.

3. Overall Policy, Investment Objectives and Risk (Defined Benefit)

Overall investment policy for defined benefit assets falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee and is driven by the investment objectives as set out below. The day-to-day management of the assets is delegated to professional investment managers and is described in Section 4.

3.1. Investment Objectives

The Trustee has considered its key investment objectives to guide it in its strategic management of the assets. The objectives have been formulated after discussion with its Investment Consultant and the Company.

The Trustee's overall investment policy is guided by the following main objective:

The desire to achieve an investment return which, together with contributions from the Company, 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 contributions.

The Plan has been established primarily to pay benefits to members on retirement from the Plan as well as to provide benefits to members' dependants on death.

3.2. Risk

The Trustee has considered the following risks in terms of the assets, which may impact on the above:

Mismatching risk – this risk arises because the assets and liabilities have different sensitivities to changes in financial markets, including changes in interest rates and inflation. This risk is considered when determining the investment strategy and is reviewed at least every three years. The Plan invests in a Liability Driven Investment ("LDI") portfolio in order to reduce the mismatch between assets and liabilities arising from interest rate and inflation changes.

Liquidity risk - the Trustee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the Trustee's long-term investment horizon, a degree of liquidity risk is acceptable because it is expected to be rewarded. The

investment strategy limits the amount permitted in non-liquid assets to ensure there will be sufficient liquidity.

Currency risk - this is addressed as part of the determination of the overall investment strategy and in the ongoing monitoring process.

Employer's Covenant risk – this was considered when setting the investment strategy and will be reviewed at least annually.

Political risk - the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

Custodian risk - this is addressed through an agreement with third party Investment Custodians and ongoing monitoring of the custodial arrangements. Restrictions are applied as to who can authorise transfers of cash and the account to which transfers can be made.

Counterparty risk – where possible, the Trustee has appropriate guidelines in place with the Investment Managers with respect to cash management and other relevant transactions to ensure this risk is minimised.

Active manager risk - the Investment Managers' guidelines ensure that the managers do not take undue risk in the portfolios.

The Trustee endeavours to monitor all the risks listed above. However, it acknowledges that it is not possible to monitor all the risks at all times.

4. Investment Policy

The Investment Policy falls into two parts:

- i) Strategic Policy, the setting of which is one of the fundamental responsibilities of the Trustee; and
- ii) Day-to-day management of assets, which is delegated to the Investment Managers.

4.1. Strategic Policy

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 mismatching risk primarily because of its assessment of the strength of the employers' covenant, the deed of guarantee (as described below) and the

Company's commitment to maintaining well-funded pension plans. The Trustee also understands that this risk is acceptable to the Company.

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 Strategic Asset Allocation ("SAA") in line with an agreed Investment Protocol, which can be amended by mutual agreement of the Trustee and the Company. In February 2020, April 2022, October 2022 and April 2023 the Trustee and the Company agreed to accelerate the de-risking documented in the original Investment Protocol.

As a result of this April 2023 agreement, the applicable SAA changes each year are as set out in the table below, and reflect a strategy of gradual de-risking:

Strategic Asset Allocation										
Category/%	With effect from 1 January each year									
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032 onwards
Growth Assets*	30.5	28.0	25.5	23.0	20.5	18.0	15.5	13.0	10.5	6.0
High Lease to Value ("HLV") Property	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Bond Assets**	65.5	68.0	70.5	73.0	75.5	78.0	80.5	83.0	85.5	90.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Growth assets will be primarily equities, but may include up to 5% of the total asset allocation in property, as well as up to 6% of the total assets allocation in non-equity growth assets. This includes Global Tactical Asset Allocation, emerging market debt, infrastructure, secured finance or such other assets as the Trustee and PepsiCo may agree from time to time.

** Includes any short-term cash holdings. Short-term cash holdings are meant to be for liquidity and/or temporary cash for transitioning from growth assets to bond assets.

Further explanation and details of the investment strategy are set out in the IIPD.

4.2. Rebalancing Policy

The first priority of the Trustee's rebalancing policy is to avoid an Investment Breach. An Investment Breach is defined by the Investment Protocol as being a position, however caused, where the Plan's actual exposure within its defined benefit invested assets portfolio deviates by at least +/- 4% from the SAA at the quarter end prior to the ISC Meeting at which the Investment Breach is identified, provided that any deviation of at least +/- 4% arising from:

- a) a change to the Plan's SAA agreed in advance between the Trustee and the Company in writing; or
- b) market movements which are being or will be addressed within a period of 30 Business days from the date of notification of the Investment Breach (or potential Investment Breach) by the Trustee to the Company by a rebalancing exercise in line with the SAA; or
- c) cash flows into or out of the Plan (for example for benefit administration purposes or resulting from an employer contribution) which are being or will be addressed within a period of 30 Business days from the date of notification of the Investment Breach (or potential Investment Breach) by the Trustee to the Company by a rebalancing exercise in line with the Strategic Asset Allocation will not be an Investment Breach.

As required under the Investment Protocol, the ISC will monitor compliance with the SAA at each ISC Meeting and will (through the Chair of the Trustees) inform the Company of any Investment Breaches no later than 5 business days after the relevant ISC meeting. Following notification of an Investment Breach by the Trustee to the Company, the parties will follow an Investment Breach Resolution Process as set out in the Investment Protocol. As per the Investment Protocol, "ISC Meetings" mean the Trustee's Investment Sub-Committee meetings which take place on a quarterly basis, the dates of which will be notified by the Trustee to the Company at least six months in advance.

If a tolerance band is breached and the ISC has no specific reason to do otherwise, rebalancing will be implemented to take the position back to half way between the tolerance band that has been breached and the central benchmark allocation.

The Trustee has agreed more granular tolerances for each individual mandate as set out in the IIPD.

Cash flow into/out of the Plan will be used to facilitate the evolution of the Plan's asset allocation in line with the SAA outlined in the Investment Protocol and as defined in Section 4.1 of this Statement. The ISC, which comprises Trustee and Company

representatives, will review the Plan's cash flow policy on a quarterly basis, based on advice from the Investment Consultant.

Instructions to Investment Managers or to the Custodian must be authorised by two Trustees, one of whom must be a member of the ISC.

4.3. Day-to-day Management

The Trustee has delegated the day-to-day management of the main assets of the Plan to Investment Managers. All of the appointed Investment Managers are regulated by the Prudential Regulation Authority (the "PRA") and/or the Financial Conduct Authority (the "FCA"). Details of the appointed Investment Managers can be found in the IIPD.

The use of derivatives is permitted for the purposes of efficient portfolio management and/or to manage certain risks attached to the Plan's physical asset holdings (e.g. to manage the overseas currency risk attached to investments in non-sterling denominated securities). Their use is defined in the respective Investment Managers' agreements. Further details are provided in the IIPD.

Having considered advice from the Investment Consultant, the Trustee is satisfied that the spread of assets by type and the Investment Managers' guidelines on investing in individual securities within each type provides adequate diversification of investments.

4.4. Additional Assets

Small cash balances may be held in the Plan Administrator's bank account to facilitate the payment of benefits and expenses.

4.5. Realisation of Investments

The Plan's Investment Managers have discretion both in the timing of realisations of investments and in considerations relating to the liquidity of the investments. The Plan holds a diversified portfolio consisting mostly of readily realisable securities, and so the risk of not being able to sell assets in order to pay benefits is small.

5. Overall Policy, Investment Objectives and Risk (Defined Contribution)

The Trustee holds certain defined contribution 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.

5.1. Investment Objective

The Trustee's objective for 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.

5.2. 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.

5.3. Investment Strategy

The Trustee has made available a range of Defined Contribution funds as detailed in the IIPD.

The Trustee, having taken expert advice, believes that the lifestyle investment option (described in Section 5.4 below) and the range of funds described in the IIPD are appropriate to meet the Trustee's objective as set out in Section 5.1 and will address the risks identified in Section 5.2.

5.4. Lifestyle investment option

In line with best practice for DC and AVC arrangements, the Trustee has chosen to make available a lifestyle investment option for those members who do not feel confident in making their own investment choices.

This lifestyle 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 historically paid into the Plan.

The lifestyle investment option initially invests 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 Target Retirement Date ("TRD"), or Normal Retirement Date ("NRD") if no TRD

has been selected, existing funds will be switched to reduce the holding in the Global Equity Fund and increase the holding in the Cash Fund (reverse switching is not permitted). The objective is to provide protection against capital loss, with a view to providing members with a cash lump sum at retirement.

These switches take place quarterly in January, April, July and October, with each member's initial switch occurring in the quarter 5 years prior to their NRD/TRD. The switches will occur in line with the distributions summarised in the table below:

Period until NRD/TRD	% of assets in Global Equity Fund	% of assets in Cash Fund
Prior to 5 years	100	0
5 years	95	5
4 years 9 months	90	10
4 years 6 months	85	15
4 years 3 months	80	20
4 years	75	25
3 years 9 months	70	30
3 years 6 months	65	35
3 years 3 months	60	40
3 years	55	45
2 years 9 months	50	50
2 years 6 months	45	55
2 years 3 months	40	60
2 years	35	65
1 years 9 months	30	70
1 years 6 months	25	75
1 years 3 months	20	80
1 year	15	85
9 months	10	90
6 months	5	95
3 months	0	100
Position until benefits settled	0	100

6. Employer Related Investment

The Trustee has a policy of not allowing any direct investments in employer related investments (i.e. securities issued by PepsiCo, Inc. or any of its associated companies). The Trustee acknowledges that the Plan may be indirectly invested in employer related

investments via its investment in pooled vehicles. The Trustee will monitor employer related investments resulting from indirect investments to ensure they are within statutory limits.

7. 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 3.1 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 their 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.

The Trustee's key stewardship themes are as follows:

- i) Environment – climate change and biodiversity.
- ii) Social – modern slavery.
- iii) Governance – Board diversity.

The Trustee has determined these priorities based on the Trustee Directors' ESG beliefs, taking into account the Company's strategic priorities on ESG and sustainability matters. The investment managers are aware of the Trustee's policies on stewardship and engagement.

Further details are provided in the ESG Policy.

8. Investment Manager Appointment, Engagement and Monitoring

The Investment Managers are appointed by the Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which they are selected.

The Trustee looks to its Investment Consultant for their forward looking assessment of a manager's ability to outperform over a full market cycle. The consultant's manager research ratings, including ESG ratings, assist with due diligence and questioning managers during presentations to the ISC/Trustee and are used in decisions around selection, retention and realisation of manager appointments.

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee's focus is primarily on long-term performance but short-term performance is also reviewed.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives and may ask the manager to review their fees instead of terminating the mandate.

Where appointments are for actively managed mandates, the managers are incentivised through remuneration and performance targets. An appointment will be reviewed following periods of sustained underperformance. The Trustee will regularly review the appropriateness of using actively managed funds (on an asset class basis).

As the Trustee invests in some pooled investment funds, it accepts that it cannot specify the risk profile and return targets for these funds. However, appropriate funds are selected to align with the overall investment strategy.

For segregated mandates, the Trustee has specified criteria in the investment manager agreements for the asset class managers to meet the Plan's specific investment requirements:

- For the LDI mandate, the manager has been appointed to manage the assets in line with a Plan-specific benchmark based on the underlying liabilities of the Plan.
- For the Credit mandate, the manager has been given guidelines specifying the Trustee's desired portfolio characteristics including permitted investments, credit limits and geographical exposure.

The Trustee receives MiFID II reporting from the Investment Managers but does not analyse the information.

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. This is assessed by comparing portfolio turnover as reported by the Investment Managers, across the same asset class, on a year-for-year basis for the same manager fund, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus (where applicable). The Trustee does not explicitly monitor portfolio turnover costs across the whole portfolio but at an individual mandate basis this will form part of the Investment Consultant's manager research assessment.

For Defined Contribution assets, the Trustee 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 open-ended funds in which the Plan invests, there is no set duration for the manager appointments. 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.

For Defined Contribution assets, all the funds are open-ended with no set end date for the arrangement. The Fund Range and Default Strategy are reviewed on at least a triennial basis. 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.

9. 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.

10. Review of this Statement

The Trustee will review this Statement 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. This review will coincide with each Actuarial Valuation, or more frequently if necessary. Any such review will again be based on written, expert investment advice and will be in consultation with the Company.

Signed on behalf of PepsiCo UK Pension Plan Trustee Limited

Signed: Steve Turner, Chair of Trustee

Date: 30 September 2023