PepsiCo UK Pension Plan – Annual Implementation Statement

Section 1: Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles (“SIP”) produced by the Trustee has been followed during the year to 30 September 2020. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The table later in the document sets out the how, and the extent to which, the policies in the Defined Benefit (“DB”) and Defined Contribution (“DC”) Sections of the SIP have been followed.

We can confirm that all policies in the SIP have been followed in the year to 30 September 2020.

Section 2: Investment Objectives of the Plan

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.

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.

Section 3: Review of the SIP

During the year to 30 September 2020 the Trustee reviewed the Plan's SIP. A revised SIP was signed in August 2020 in order reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the arrangements with the asset managers incentivise them to align their investment strategy and decisions with the Trustee policies in SIP.
- How the arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of asset managers' performance and the remuneration for asset management services are in line with the Trustee's policies mentioned in the SIP.
- How the Trustee monitors portfolio turnover costs incurred by the asset manager and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangements with the asset managers.
- Financially material considerations, including Environmental, Social and Governance ("ESG") considerations, Stewardship, and explicitly Climate Change.

Section 4: Assessment of how the policies in the SIP have been followed for the year to 30 September 2020

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, relating to the Scheme as a whole and the default investment arrangement. The SIP is attached as an Appendix and sets out the policies referenced below.

#	Requirement	Policy	In the year to 30 September 2020
1	Securing compliance with the legal requirements about choosing investments	***DB and DC Sections*** *The Trustee obtains advice from its investment adviser, who can provide expert advice enabling the Trustee to choose investment vehicles that can fulfil the Plan's investment objectives. In the Trustee's opinion this is consistent with the requirements of Section 36 of the Pensions Act 1995.*	**DB Section** The Trustee terminated the DB Section's investment in the Global Tactical Asset Allocation ("GTAA") Fund with Winton on 31 January 2020. Proceeds were invested into the Plan's existing investment arrangements and no new investment vehicles were introduced over the Plan year. The Trustee receives advice from its investment adviser as required. **DC Section** As part of the transfer of the Equitable Life business to Utmost, AVCs previously invested in the With-Profits Fund with Equitable Life were automatically transitioned to Utmost in January 2020, where they were invested in a money markets fund. The Trustee subsequently agreed to transfer such holdings to the Plan's DC arrangements with BlackRock. The Trustee received advice from its investment adviser regarding the suitability of the arrangements with Utmost and the appropriateness of the subsequent transfer. There have been no other changes to the DC Section's investment options over the Plan year.

2	Kinds of investments to be held and balance between different kinds of investments	***DB Section*** *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 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 HLV Property) and a "Bonds" category (comprising LDI and Investment Grade corporate bonds).* *The strategic asset allocation (SAA) is set to achieve the expected return required within an acceptable level of risk.* ***DC Section*** *A range of asset classes are included within the default investment option, including: equities and money market funds.* *The Trustee has also made available a range of individual self-select fund options for investment*	**DB Section** 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 of the Trustee and the Company. In February 2020 the Trustee and the Company agreed to accelerate the de-risking documented in the original Investment Protocol by implementing an additional 2% movement from equities to bonds. This resulted in a SAA between the aforementioned categories of 49.5% Growth, 9.0% Property and 41.5% Bonds. The Trustee regards the basic distribution of the assets to be appropriate for the Plan's objectives and liability profile. There were no other changes to the DB Section's SAA over the 12 months to 30 September 2020. **DC Section** The Trustee has selected a range of investment options for members to utilise in structuring their assets according to their individual objectives. The Trustee recognises that members of the DC Section of the Plan have differing investment needs and that these may change during the course of members' working lives. The Trustee believes that members should be encouraged to make their own investment decisions based on their individual circumstances. 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. The Trustee recognises that members may not believe themselves qualified, or may not wish to make their own investment decisions. As such, the Trustee makes available a default investment strategy. The Trustee acknowledges that this strategy will not meet the needs of every individual member. The strategic asset allocation of the default investment option is reviewed on a triennial basis, with expected risk and return requirements being considered as part of the review.

#	Requirement	Policy	In the year to 30 September 2020
		in addition to the default investment option. A similar range of asset classes as used under the default option (with the addition of index-linked gilts) has been made available for investment. Members can combine the self-select funds in any proportion in order to achieve the desired level of return and risk in line with their own attitude and tolerance of risk. Within the default option, the strategic asset allocation is set to achieve the expected return required to meet the objective of the default option.	

#	Requirement	Policy	In the year to 30 September 2020
3	Risks, including the ways in which risks are to be measured and managed	***DB and DC Sections*** *The Trustee considers risk (both investment and operational) from a number of perspectives in relation to the DB and DC Sections of the Plan*	**DB Section** As detailed in Section 3.2 of the SIP, the Trustee considers both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, the choice of fund managers / funds / asset classes. The Plan maintains a risk register of the key risks to which it is 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 are being appropriately managed and measured. **DC Section** As detailed in section 5.2 of the SIP, the Trustee specifically recognises the following risks (amongst other things): • The risk that a low investment return over the members' working lives might negatively impact the level of benefits available at retirement. • 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. • The risk that the chosen Investment Manager might underperform the benchmark return against which the manager is assessed. Such risks are taken into account as part of the Trustee's triennial review of the investment strategy for the default investment option. In addition, the Trustee reviews the performance of the funds on a quarterly basis.

#	Requirement	Policy	In the year to 30 September 2020
4	Expected return on investments	***DB Section*** *The Trustee targets a return on the investments which is consistent with the long-term assumptions made by the Actuary in determining the funding of the DB Section.* ***DC Section*** *The funds available are expected to provide an investment return in excess of inflation during the growth phase and de-risk towards the retirement date.* *In designing the default, the Trustee has explicitly considered the trade-off between risk and expected returns. The objective is to assist members to provide adequately for themselves in retirement via appropriate investment of their accumulated savings under the Plan.*	**DB Section** The investment performance report is reviewed by the Trustee on a quarterly basis. The investment performance report includes how each investment manager is delivering against their specific mandates. Over the 3 years to 30 September 2020, the DB Section of the Plan has returned 5.8% p.a. relative to a benchmark return of 6.0% p.a.. **DC Section** Over the 3 years to 30 September 2020, the funds utilised within the DC Section have delivered returns that are broadly in line with their respective benchmarks. The annual investment performance report includes how each strategy is delivering against its specific benchmark.

#	Requirement	Policy	In the year to 30 September 2020
5	Realisation of investments	***DB and DC Sections*** *The Trustee's administrators will realise assets following member requests on retirement or earlier where required.* *The Trustee considers the liquidity of the investment in the context of the likely needs of members.*	**DB Section** Subject to maintaining the SAA, the Trustee seeks to use income derived from the Plan's assets to meet cashflow requirements if possible, thereby reducing the need for physical disinvestment of assets.. The Plan holds a diversified portfolio consisting mostly of readily realisable securities. As such, the risk of not being able to sell assets in order to pay benefits is small. **DC Section** The funds are daily priced and traded.
6	Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	***DB and DC Sections*** *The Trustee considers financially material considerations in the selection, retention and realisation of investments. Within the funds consideration of such factors, including ESG factors, is delegated to the investment manager.* *Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.*	**DB and DC Sections** The investment performance report is reviewed by the Trustee on a quarterly (DB Section) / Annual (DC Section) basis and it presents how each investment manager is delivering against their specific mandates. This includes ratings (both general and specific to ESG) from the investment adviser. All of the managers remained generally highly rated during the year. The Plan's SIP includes the Trustee's policy on ESG factors, stewardship and Climate Change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. Where managers may not be highly rated from an ESG perspective, the Trustee continues to monitor them. When implementing a new manager the Trustee will consider the ESG rating of the manager. The Trustee acknowledges that managers in fixed income do not have a high ESG rating assigned by the investment consultant due to the nature of the asset class where it is harder to engage with the issuer of debt.

#	Requirement	Policy	In the year to 30 September 2020
7	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	***DB and DC Sections*** *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.*	**DB and DC Sections** The Trustee will continue to review its position on this policy.
8	The exercise of the rights (including voting rights) attaching to the investments	***DB and DC Sections*** *Investment managers are expected to exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.*	**DB and DC Sections** The Trustee has delegated its voting rights to the investment managers. Investment managers are expected to evaluate factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice. The Trustee does not use the direct services of a proxy voter. Further details regarding the key voting and engagement activity conducted on behalf of the Trustee is set out in the next section.

#	Requirement	Policy	In the year to 30 September 2020
9	Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustee would monitor and engage with relevant persons about relevant matters)	***DB and DC Sections*** *Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.* *Outside of those exercised by investment managers on behalf of the Trustee, no other engagement activities are undertaken.*	**DB and DC Sections** The Trustee expects its investment managers to engage with the investee companies on his behalf. At present, when investment managers present to the Trustee they are asked to provide details of key engagement activity (where relevant) and the impact the actions have had on the portfolio. The Trustee will challenge the managers' actions if appropriate.
10	How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustee's policies.	***DB and DC Sections*** *The Trustee's policy in relation to investments to be held is set out in sections 3 and 4 of the SIP.* *Managers are chosen based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.*	**DB and DC Sections** 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.

#	Requirement	Policy	In the year to 30 September 2020
11	How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.	***DB and DC Sections*** *The Trustee regularly meets with the managers to review their mandates and the decisions made, challenging such decisions to try to ensure the best long term performance over the medium to long term. Managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage.*	**DB Section** 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. **DC Section** All the funds are open-ended with no set end date for the arrangement. The fund range and default option 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.

#	Requirement	Policy	In the year to 30 September 2020
12	How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies.	***DB and DC Sections*** *The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis, as set out in Section 8 of the SIP. As such, managers are assumed to be held for a suitably long time. Managers' performance net of fees is therefore reviewed over both short and long time horizons.* *Remuneration is agreed upon prior to manager appointment and is reviewed on a regular basis (specific comment on performance related fees)*	**DB Section** The Trustee looks to its investment adviser for forward looking assessments 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 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). **DC Section** The remuneration for asset management for the DC Section was considered as part of the annual Value for Members assessment. The Trustee includes a 3-year and 5-year performance metric in their annual performance reports and considers manager performance over longer time periods.

#	Requirement	Policy	In the year to 30 September 2020
13	How the Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.	***DB and DC Sections*** *The Trustee's policy in relation to the monitoring of portfolio turnover costs is set out in section 8 of the SIP.*	**DB Section** The Trustee has asked its investment managers to include portfolio turnover and turnover costs in their presentations and reports where applicable. The Trustee has not explicitly monitored portfolio turnover costs over the Plan year, but notes that at an individual mandate basis this will form part of the investment adviser's manager research assessment. **DC Section** The Trustee considered portfolio turnover costs as part of the annual Value for Members assessment.
14	The duration of the arrangement with the asset manager	***DB and DC Sections*** *There is no set duration for manager appointments. However, appointments are regularly reviewed as to their continued suitability and could be terminated either because the Trustee is dissatisfied with the managers' ongoing ability to deliver the mandate promised or because of a change of investment strategy by the Trustee.*	**DB Section** The GTAA Fund with Winton was terminated on 31 January 2020. **DC Section** Funds held with Utmost (following the transition of the Equitable Life business) were transferred to the DC funds available with BlackRock in October 2020.

Section 5: Voting and Engagement Activity

Details regarding the key voting and engagement activity conducted on behalf of the Trustee is set out below.

Aviva – HLV Property

At present, Aviva Investors Real Assets does not report at entity, fund or mandate level on engagement. This manager is building its reporting processes and is planning to begin reporting on engagement from Q1 2021.

BlackRock – Passive Equity

Key votes undertaken over the prior year are summarised as below.

Aquila Life UK Equity Index fund:

- There have been 1,140 votable meetings over the year, of which BlackRock has voted in 1,109 (97%) of these meetings on behalf of the Trustee.
- In these meetings, there were 15,414 votable proposals. BlackRock has participated in the vote for 14,974 of the votable proposals (97%). In around 93% of these votes for proposals, BlackRock has indicated their support to the companies' managements, while voting against around 5% of the proposals and abstaining from voting in around 2%.

Aquila Life US Equity Index fund:

- There have been 611 votable meetings over the year, of which BlackRock has voted in 609 (99%) of these meetings on behalf of the Trustee.
- In these meetings, there were 7,596 votable proposals. BlackRock has participated in the vote for 7,588 of the votable proposals (99%). In around 93% of these votes for proposals, BlackRock has indicated their support to the companies' managements, while voting against around 6% of the proposals and abstaining from voting in around 1%.

Aquila Life Japanese Equity Index fund:

- There have been 512 votable meetings over the year, of which BlackRock has voted in all on behalf of the Trustee.
- In these meetings, there were a total of 6,269 votable proposals. BlackRock has participated in the vote for all of the votable proposals (100%). In around 98% of these votes for proposals, BlackRock has indicated their support to the companies' managements, while voting against around 2% of the proposals.

Aquila Life European Equity Index fund:

- There have been 481 votable meetings over the year, of which BlackRock has voted in 410 (85%) of these meetings on behalf of the Trustee.

- In these meetings, there were a total of 8,478 votable proposals. BlackRock has participated in the vote for 6,935 of the votable proposals (82%). In around 86% of these votes for proposals, BlackRock has indicated their support to the companies' managements, while voting against around 13% of the proposals and abstaining from voting in around 1%.

Aquila Life Global Developed Fundamental Weighted Index fund:

- There have been 602 votable meetings over the year, of which BlackRock has voted in 570 of these meetings on behalf of the Trustee.
- In these meetings, there were a total of 9,661 votable proposals. BlackRock has participated in the vote for 8,878 of the votable proposals (92%). In around 92% of these votes for proposals, BlackRock has indicated their support to the companies' managements, while voting against around 7% of the proposals and abstaining from voting in around 1%.

Genesis – Emerging Markets Equity

Key votes undertaken over the prior year are summarised below:

- There have been 134 votable meetings over the year. Genesis has voted in all of these meetings on behalf of the Trustee.
- In these meetings, there were a total of 1,257 votable proposals. Genesis has participated in the vote for all of the votable proposals (100%). In around 87% of these votes for proposals, Genesis has indicated their support to the management, while voting against around 10% of the proposals and abstaining from voting in around 3%.

Lothbury - Property

Lothbury does not have engagement with investee companies, although it does engage with tenants of the properties that the Fund holds. At present, Lothbury does not report at entity, fund or mandate level on engagement, but the manager responds to queries at Fund level for investors in the Lothbury Property Trust.

M&G – Sterling Non-Gilts

M&G has indicated their support to the management in all of the 8 consent solicitations over the reporting period.

Schroders – Asia Pacific (ex-Japan) Equity

Key votes undertaken over the prior year are summarised as below:

- There have been 46 votable meetings over the year, of which Schroders has voted in 100% of these meetings on behalf of the Trustee.

- In these meetings, there were a total of 428 votable proposals. Schroders has participated in the vote for all of the 7,596 votable proposals (100%). In around 94% of these votes for proposals, Schroders has indicated their support to the companies' managements, while voting against around 6% of the proposals.

Schroders – LDI

Schroders engages actively on industry initiatives and regulation within the LDI sphere to represent the views of clients to key public bodies and effectively deliver better outcomes, as well as being committed to supporting clients with their regulatory requirements. Most recently, Schroders has been actively engaging on RPI reform and LIBOR reform with the UK treasury/ISDA in addition to regular engagements with counterparty banks.

Schroders also engages directly with various government bodies, such as the Bank of England and the DMO, on market liquidity and gilt issuance. In addition, they continue to welcome the UK government to issue green gilts as a further potential evolution of the gilt market to support sustainable investment financing within the UK.