

PepsiCo UK Pension Plan
Chair's Statement Update
Plan Year - 1 October 2019 to 30 September 2020

1. Introduction

- 1.1. This statement has been prepared by PepsiCo UK Pension Plan Trustee Limited ('the Trustee'), the Trustee of the PepsiCo UK Pension Plan ('the Plan'), to report on compliance with governance standards.
- 1.2. The governance standards apply to defined contribution (DC) arrangements and are designed to help members achieve good outcomes from their pension savings.
- 1.3. This document sets out the Statement covering the period 1 October 2019 to 30 September 2020 and a copy of this document is published on the PepsiCo website at www.pepsico.co.uk/pension-plan-members.

2. The Plan's DC arrangements

- 2.1. During the Plan Year, the Plan's DC benefits were comprised of benefits:
 - a. For former members of the Quaker Oats Money Purchase Scheme;
 - b. For former members of the Huntley & Palmer Foods Scheme or Smiths Monthly Plans; and
 - c. For former members of the Pepsi-Cola UK Retirement Plan.
- 2.2. These are known as the legacy money purchase benefits and are administered by Mercer Limited. They are closed to future contributions.
- 2.3. The legacy money purchase arrangements are not being used as a qualifying scheme for automatic enrolment purposes.
- 2.4. AVCs are provided through 'bundled' arrangements (administration, investment and communication services from each provider) with Aviva, Prudential, Standard Life and Utmost Life & Pensions (formerly Equitable Life) for Defined Benefit ('DB') members. These arrangements are closed to future contributions.
- 2.5. AVCs are also provided for DB members on an 'unbundled basis' with administration services provided by Mercer Limited and investments replicating those for the legacy money purchase arrangements. These arrangements are open to future contributions.
- 2.6. During the Plan Year to which this Statement relates, we have experienced the Covid-19 world pandemic. The Trustee took advice to identify and manage the key potential risks posed to the Plan. In addition, the Trustee remains in regular contact with its advisers and the Plan Administrator to ensure their business continuity plans are in place and working.
- 2.7. Taking account of necessary adjustments to cope with the impact of the pandemic, all functions of the Plan Administrator, the AVC providers and the Trustee's other advisers are working as expected but largely from 'remote working' locations. The Trustee continues to have meetings albeit in a virtual setting.

3. Default investment arrangements

- 3.1. The Plan is not being used as a qualifying scheme for automatic enrolment purposes and, as such does not have an automatic enrolment default investment option available to members. There are, however, other investment options which are deemed to be default options and details of these are set out below.

Global Equity Fund

- 3.2. Back in August 2015, changes were made to increase the diversification for members investing in the Plan's Global Equity fund. This involved a switch of assets from the BlackRock Aquila Life (70:30) Global Equity Index Fund to the BlackRock Aquila Life (30:70) Currency Hedged Global Equity Index Fund.

- 3.3. The Global Equity fund formed part of a lifestyle investment option which the Trustee still makes available to members and the fund was also available as a self-select option which could be chosen by members to invest in if they wanted to.
- 3.4. When the change was made, the Trustee communicated with members and made the change set out. Some members did not respond to the communication from the Trustee, and in this case, members' assets were transferred without explicit consent. Because of this, the investment arrangements to which members were transferred may be deemed to be 'default' investment arrangements for the purposes of the regulations.
- 3.5. If the member was already in the lifestyle investment option (see details below), then they remained in the lifestyle option, but the way the Global Equity fund was invested changed. If a member had chosen to invest in the Global Equity fund, but not as part of the lifestyle investment option, then their investment moved between the two funds mentioned above; it remained a type of global equity fund investment, but the actual fund used had changed.

The lifestyle option

- 3.6. The lifestyle investment option initially invests in the BlackRock Aquila Life (30:70) Currency Hedged Global Equity Index Fund, with the aim of providing a return above inflation over the long-term, until a member is five years from their selected retirement date.
- 3.7. 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.

Utmost Secure Cash Fund and Utmost Money Market Fund

- 3.8. In 2019, the Trustee of the Plan received a proposal from the Equitable Life Board to close down the Equitable With-Profits Fund and to transfer its business to another insurance company, Utmost Life and Pensions Limited ('Utmost'). The transfer was agreed by the Trustee and other policyholders and took place on 1 January 2020 when the with-profits assets were transferred to Utmost and invested in the Utmost Secure Cash Fund, which was guaranteed not to decrease in value.
- 3.9. Investments stayed in this fund until 30 June 2020, when they started to be transferred gradually over a six month period to the Utmost Money Market Fund, which provides a high level of capital security.
- 3.10. The Trustee wrote to members explaining the changes that were taking place, but because they were implemented without member consent, both the Utmost Secure Cash Fund and the Utmost Money Market Fund are also deemed to be default options.
- 3.11. The Trustee subsequently made a decision to transfer these assets to the Plan's main money purchase funds and this took place later in 2020. Communications were sent to relevant members and further information will be provided in next year's Chair's Statement.

Review of the default and lifestyle option

- 3.12. The Trustee will continue to monitor the lifestyle investment option and will make amendments as appropriate based on its analysis of the likely requirements of Plan members. No formal review of the default was undertaken in the Plan Year. The strategy and performance of the default were last formally reviewed as at June 2019.
- 3.13. The Trustee monitors the performance of all money purchase and AVC investment options on an annual basis. These reviews are part of the regular governance of the Plan and do not constitute a formal review of the default options, which will follow a three year cycle and will be reviewed again in the 2021/22 Plan Year.

Investment monitoring

- 3.14. Details of the lifestyle investment option and additional funds are set out in the attached 'Statement of Investment Principles' ('SIP') dated August 2020 and 'Default SIP' dated April 2021. This covers the aims and objectives in relation to the default options and the general principles underlying the broader investment policy in relation to the entire Plan.
- 3.15. During the Plan Year, the Trustee, with the assistance of its investment advisers, considered the extent to which the return on investments relating to the default investment strategies outlined above (after deduction of any charges relating to those investments) is consistent with the investment aims and objectives for the arrangements.
- 3.16. The Trustee considers that the default options remain appropriate and have been consistent with the Trustee's investment objectives for them.

4. Core financial transactions

- 4.1. The Trustee has a duty to ensure that 'core financial transactions' are processed promptly and accurately.
- 4.2. Core financial transactions comprise the following:
- investment of contributions made to the Plan
 - transfers into and out of the Plan
 - investment switches within the Plan
 - payments out of the Plan (e.g. retirement or death benefits).
- 4.3. Core financial transactions for the legacy money purchase benefits and unbundled AVCs are undertaken by Mercer Limited.
- 4.4. Core financial transactions for the AVC arrangement are undertaken by Aviva, Prudential, Standard Life and Utmost (formerly Equitable Life), with oversight from Mercer Limited as the lead administrator.

Controls and monitoring arrangements

- 4.5. The Trustee operates a system of internal controls aimed at monitoring the Plan's administration and management. The controls in place in relation to ensuring the promptness and accuracy of core financial transactions are:
- The Trustee maintains a Risk Register, which sets out the key risks for the Plan and its membership. This is reviewed at each quarterly Trustee meeting.
 - 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 a Service Level Agreement (SLA) in place with the Administrator, Mercer Limited. The SLA sets out the timeline standards expected for each step of the Plan's main administration tasks, including core financial transactions. The administrator aims to process at least 95% of core financial transactions within the service level for each type of transaction.
 - The agreed service levels are set out below:

Task	Agreed service level (days)
Death in Service	1
Deferred Leavers	5
Retirement Quotes	5

Task	Agreed service level (days)
Transfer out quotes (incl. divorce)	10
Transfer settle	10

- e. 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 the SLA's.
- f. The Trustee receives quarterly reports on performance against the SLA and reviews the latest report at each quarterly Trustee meeting.
- g. 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.
 - AVCs 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.
- h. 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 2019 and included the Independent Service Auditor's opinion that, in all material aspects, its controls were suitably designed, and those tested operated effectively.
- i. Any material issues uncovered regarding inaccuracies with core financial transactions are included within the Administrator's quarterly reporting to the Trustee.

Performance during the Plan Year

4.6. From 1 October 2019 to 30 September 2020, the following service levels were achieved by Mercer on the items listed above:

Q4 2019: 96% Q1 2020: 97% Q2 2020: 98% Q3 2020: 99%

4.7. Neither the Administrator's quarterly reports nor the audit of the Annual Report and Accounts identified material issues with the accuracy of core financial transactions during the Plan Year.

Assessment

4.8. In view of the controls and monitoring arrangements, and the lack of material issues experienced during the Plan Year, the Trustee believes that core financial transactions have been processed promptly and accurately.

5. Member-borne charges and transaction costs

5.1. Members bear charges and transaction costs, which will differ depending on the investment options in which their pension savings are invested:

- a. Charges: these are expressed as a percentage of the value of a member's holdings within an investment fund, and can be made up of a combination of charges, e.g. annual management charge and additional expenses. We refer to the total annual charge as the Total Expense Ratio (TER).
- b. Transaction costs: these relate to the variable costs incurred within an investment fund arising from the trading activities of the fund, e.g. incurred in the buying and selling of securities, which are not accounted for in the TER charge.

Charges in relation to the legacy money purchase and unbundled AVC benefits

5.2. The following table provides details of the charges and transaction costs for each of the investment options provided through the Plan Year (data sourced from BlackRock). The transaction costs are shown below for the reporting period and, taking into account the information provided over the prior two Plan Years, we are now also able to provide details of the annualised average transaction costs over the period 1 October 2017 to 30 September 2020 for comparison purposes:

Investment option	TER (p.a.)	Transaction costs (2019/20) (p.a.)	Transaction costs (three year average) (p.a.)
Default lifestyle investment strategy*			
BlackRock Aquila Life (30:70) Currency Hedged Global Equity Index Fund	0.163%	0.039%	0.020%
BlackRock Aquila Life Cash Fund	0.135%	0.012%	0.008%
Non-lifestyle investment choice			
BlackRock Aquila Life Over 5 Year Index-Linked Gilt Index Fund	0.104%	-0.026**	0.019%

* The charges and transaction costs for the lifestyle strategy are calculated as a composite of the underlying fund charges and transaction costs. These fund holdings and therefore also charges will vary depending upon each member's term to retirement age.

** In certain circumstances, the methodology used for calculating transaction costs (known as slippage) can lead to negative costs being reported. This can be, for example, where other market activity pushes down the price of the asset being traded, whilst the transaction was in progress, resulting in the asset being purchased for a lower price than when the trade was initiated.

Charges in relation to bundled AVCs

5.3. The following table provides details of the charges and transaction costs for each of the investment options provided through the AVC arrangements over the Plan Year (data sourced from each provider; Prudential transaction costs declared for year ending 5 April 2020):

Investment option	TER (p.a.)	Transaction costs (p.a.)	Comments
Aviva FP With-Profits Sub-Fund (NGP Series 1)	0.55%	0.107%	TER is implicit and taken into account in declared bonus. Transaction costs are not incurred by members
Aviva FP With-Profits Sub-Fund (NGP Pre-Demutualisation)	0.55%	0.107%	
Prudential With-Profits Fund	0.65%	0.083%	TER is implicit and taken into account in declared bonus. £500 p.a. scheme charge invoiced to Trustee.
Standard Life Pension With-Profits One Fund	n/a	0.008%	TER taken into account in the interim bonus declared.
Standard Life Pension With Profits One 2006 Fund	n/a	0.008%	
Equitable Life With-Profits Fund	1.00%	1.036%	See notes below the table
Utmost Secure Cash Fund	0.50%	0.000%	
Utmost Money Market Fund	0.50%	0.000%	

Notes:

- Investors in the Plan's With Profits Fund investment benefited from the 3.5% p.a. guaranteed growth rate and therefore an additional 0.50% AMC in respect of guarantees applied. Equitable Life has confirmed that the transaction costs for this fund stated above include the costs incurred from closing the With-Profits Fund as at 31 December 2019.
- From 1 January 2020, investors in the Equitable Life With-Profits Fund were automatically transferred to the Utmost Secure Cash Fund as part of the acquisition of Equitable Life by Utmost. Utmost reported that the AMC and transaction costs for the Utmost Secure Cash Fund were less than 0.01%.
- Over a six month period starting 1 July 2020, assets in the Utmost Secure Cash Fund started to be transferred to the Utmost Money Market Fund. Subsequently, the Trustee made a decision to transfer the assets to the main money purchase funds and this took place later in 2020.

5.4. 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 Retirement Plan members as well as a small number of members with a DC holding in respect of converted legacy DB benefits.

5.5. 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 Plan's DB assets. The Trustee will work with its advisors to assess what further transparency can be provided in future Chair's Statements.

Impact of costs and charges

5.6. To demonstrate the impact of charges and transaction costs on members' pension savings over time, the Trustee has produced illustrations and these are set out in the Appendix.

Security of Assets

- 5.7. 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
- 5.8. 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 the money purchase and AVC assets.

Value for members

- 5.9. The Trustee is required to assess annually the extent to which the charges and transaction costs borne by members represent good value.
- 5.10. Analysis was undertaken by the Trustee's professional advisers, Barnett Waddingham LLP, and the findings set out in a report dated 19 February 2021. The Trustee considered the report and confirmed its value for members' assessment at a meeting on 4 March 2021.
- 5.11. Recognising that low cost does not necessarily mean good value, the assessment considered whether the services for which members pay or share the costs are suitable for, relevant to and (likely to be) valued by members and whether performance of the services had been effective. Consideration was also made of the costs relative to other options available in the market.
- 5.12. Various investment-related services for which members do not directly bear the costs are nevertheless inextricably linked to creating the environment under which investment returns are delivered, e.g. strategy, monitoring and the investment governance structure, so these were included in the assessment.
- 5.13. Other services paid for by PepsiCo ('the Company') were excluded but nevertheless deliver value to members, e.g. the services of professional advisers and the operation of the trustee board, with a duty to act in the best interest of members.

Legacy money purchase and unbundled AVC benefits

- 5.14. In relation to the legacy money purchase and unbundled AVC benefits, the member-borne charges and transaction costs relate to investment services only. All other charges, including the costs of administration and communication services are met by the Company.
- 5.15. The assessment undertaken considered:
 - a. the investment strategy, e.g. the design of the lifestyle option and the range of alternative options;
 - b. the arrangements for monitoring the performance of the investment options and reviewing the investment strategy; and
 - c. the investment governance arrangements;
- 5.16. The Trustee concluded that the legacy money purchase benefits offer excellent value in relation to the charges and transaction costs borne by members.
- 5.17. In reaching this conclusion, the Trustee recognised:
 - a. The TER's for the BlackRock funds are well below 0.75% (the charge cap for DC arrangements being used for auto-enrolment);
 - b. Performance of the passive BlackRock funds has been in line with their benchmarks;
 - c. The funds are highly rated by the Plan's Investment Adviser's, Mercer Limited;
 - d. All administrative costs are met by the Plan.
- 5.18. As part of this review the Trustee also considered the CIF and the Trustee concluded that the CIF provided good value for money because whilst the CIF lacks transparency compared to typical DC funds, it is invested in funds rated highly by the Plan's Investment Advisers, Mercer Limited, and has produced reasonable performance since inception. In addition, members benefit from the fee leveraging of the DB assets.

Bundled AVCs

- 5.19. In relation to the bundled AVCs, the member-borne charges and transaction costs relate to:
- a. investment services;
 - b. administration services; and
 - c. communication services.
- 5.20. The assessment considered:
- a. in relation to investment services:
 - the investment strategy, e.g. the design of the default and range of alternative options;
 - the arrangements for monitoring the performance of the investment options and reviewing the investment strategy; and
 - the investment governance arrangements;
 - b. in relation to administration services:
 - the general administration arrangements;
 - arrangements in relation to financial transactions; and
 - data and record keeping;
 - c. in relation to communication services:
 - communication strategy;
 - pre-retirement communications; and
 - at/post retirement communications.
- 5.21. The assessment considered the broad value for members of these services, taking a proportionate approach that reflects the relatively low value of the bundled AVC pension savings concerned.
- 5.22. The Trustee concluded that the bundled AVC arrangements offer reasonable value in relation to the charges and transaction costs borne by members.
- 5.23. In reaching this conclusion, the Trustee recognised:
- a. These are legacy arrangements which are no longer open to new contributions;
 - b. The range of investment options is restricted to with-profits assets only (with alternative investment options being through the legacy money purchase options – rated above);
 - c. The providers concerned only offer basic administration services which are overseen by Mercer Limited;
 - d. Communication services are basic and there is no online member access;
 - e. The costs are broadly in line with bundled AVC arrangements of a similar size and closed nature and there is likely to be limited opportunity for the Trustee to change the service provider.
 - f. 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 for this investment type, 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.
- g. 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
- h. 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.

6. Trustee knowledge and understanding

The Trustee Board

- 6.1. The Trustee Board comprises eight Trustee Directors, four of whom are nominated by the members and four of whom are appointed by the Company.
- 6.2. One of the Company appointed Trustee Directors, David Gleave, is the Chair.

Trustee knowledge and understanding requirements

- 6.3. 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.

Approach

- 6.4. The Trustee have evidenced their knowledge and understanding in a number of key areas (those areas being set out in the regulations):

Requirement	Activities over the Plan Year
Trustees must have appropriate knowledge and understanding of the law relating to pension and trust law as well as relevant principles in relation to the funding and investment of the Plan	<p>The Trustee Directors consider their 3 year rolling training plan in each meeting, which includes specific consideration of whether any further training is required in respect of these statutory areas.</p> <p>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.</p> <p>Trustee Directors are also required to complete the Pension Regulator's Trustee Toolkit and any new/revised relevant modules released.</p> <p>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.</p>

Requirement

Activities over the Plan Year

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:

- Investment training on setting their ESG policy;
- DC governance requirements;
- Changes at Equitable Life;
- Impact of COVID-19;
- Briefings on forthcoming changes to pensions law and practice and the possible impact on the Plan.

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 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:

- Reviewed the Training Plan, the Business Plan, the Compliance Checklist and the Risk Register at each meeting;
- Considered and updated their Statement of Investment Principles in light of the new requirements around Environmental, Social and Governance considerations;
- Completed their review of the Internal Dispute Resolution Procedure;
- Received training on:
 - 'Strengthening Trustees' Investment Duties';
 - Implementation statements;
 - Cyber risks.

Knowledge and resources generally

New Trustee Directors were appointed. There is a structured induction process for new Trustee Directors over a six month period which was implemented for the new Trustee Directors and 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
- Attending a one-day introduction course on the duties and responsibilities of a scheme trustee.
- Completing the Pensions Regulator's trustee toolkit (which the new Trustee Directors did and the existing Directors renewed during the Year;
- Undertaking 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.

Requirement	Activities over the Plan Year
6.5.	<p>The Trustee maintains a training log that sets out individual and whole-board based training activity.</p> <p>The Trustee’s professional advisors attend all meetings and are asked to input into the agenda.</p>

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

Assessment

6.6. As a result of the training activities which have been completed by the Trustee Directors individually and collectively as a Board, and taking into account the professional advice available to the Trustee at and between quarterly meetings, the combined knowledge and understanding of the Trustee enables it to exercise properly its functions as the Trustee of the Plan.

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

Dated: 28 April 2021

This document was signed by David Gleave, the Chair of Trustee, on 28 April 2021

Appendix – Illustrations on the impact of cost and charges

- A1.1. To demonstrate the impact of member-borne charges and transaction costs on the value of members' pension savings, the Trustee has produced illustrations in accordance with statutory guidance. These show the impact of charges and transaction costs for representative cross-sections of the membership and investment options.
- A1.2. In order to provide meaningful illustrations, the Trustee has focused on the legacy money purchase arrangements given the size and closed nature of the assets held in the with-profits AVC arrangements.

Parameters used for the illustrations

- A1.3. The membership of the legacy money purchase arrangements and the investment options offered were analysed in determining the parameters to be used.
- A1.4. **Pot size:** average pot size of £20,000 has been used as this is the average legacy money purchase pot size at 30 September 2020.
- A1.5. **Active members and deferred members:** illustrations have been provided for active members assuming total regular contributions of £3,485 p.a. are paid (which is the average contribution per member as at 30 September 2020), and for deferred members assuming no future contributions.
- A1.6. **Pensionable salary:** Pensionable salary and therefore the contributions paid are assumed to grow at 2.5% per year.
- A1.7. **Timeframe:** the illustrations are shown over a 35 year time frame as this covers the approximate duration that the youngest member would take to reach retirement age.
- A1.8. **Investment options:** the investment options selected for the illustrations include the most popular by number of members (the 'default' lifestyle option), the highest charged fund, the lowest charge fund, the fund with the highest assumed future investment return and the fund with the lowest assumed future investment return.

Investment option	Rationale for inclusion	Assumed return above inflation*	TER	Transaction cost**
Default Lifestyle investment option	Most popular choice	-2.3650% to 2.363%	0.135% to 0.163%	0.008% to 0.020%
Default BlackRock Aquila Life (30:70) Currency Hedged Global Equity Index Fund	Highest assumed future investment return and highest charge	2.363%	0.163%	0.020%
BlackRock Aquila Life Cash Fund	Lowest assumed future investment return	-2.365%	0.135%	0.008%
BlackRock Aquila Life Over 5 Year Index-Linked Gilt Index Fund	Lowest charge	-0.596%	0.104%	0.019%

* Projected growth rates, gross of costs and charges, for each investment option are in line with the 2020 Statutory Money Purchase Illustrations (SMPIs).

** The statutory guidance requires trustees to use an average of the last five years' transaction costs (insofar as they are able) when producing the illustrations. As we have data for the last three years only, the figures are three year averages.

Guidance to the illustrations

- A1.9. For each illustration, the savings pot has been projected twice: firstly for the assumed investment return gross of costs and charges; and secondly for the assumed investment return net of costs and charges.

A1.10. Projected pot sizes are shown in today's terms, so do not need to be reduced further for the effects of future inflation. Inflation is assumed to remain constant throughout the term of the illustrations, at 2.5% per year.

A1.11. Values shown are estimates and not guaranteed.

A1.12. The starting date for the illustrations is 30 September 2020.

A1.13. The illustrations are presented in two different ways:

- a. For the default lifestyle strategy, the illustrations should be read based on the number of years until the member reaches their retirement age. This is because the underlying funds used and therefore the costs and charges changes over time and this is reflected in the illustrations.
- b. For the default and other self-select funds, the illustrations should be read based upon the number of future years that a member expects to be invested in those funds.

Default lifestyle investment option

A1.14. This is the most popular choice by number of members.

Illustration basis	Years from taking benefits	Starting pot size £20,000	
		Before charges	After charges
Active member Starting contribution £3,485 p.a.	0	£20,000	£20,000
	1	£22,941	£22,910
	3	£29,355	£29,246
	5	£36,862	£36,641
	10	£59,541	£58,856
	15	£84,958	£83,536
	20	£113,443	£110,954
	25	£145,366	£141,415
	30	£181,143	£175,255
	35	£221,238	£212,851
Deferred member No contribution	0	£20,000	£20,000
	1	£19,539	£19,511
	3	£19,179	£19,093
	5	£19,534	£19,382
	10	£21,891	£21,533
	15	£24,534	£23,922
	20	£27,495	£26,576
	25	£30,814	£29,525
	30	£34,534	£32,802
	35	£38,702	£36,441

A1.15. **Note on how to read this table:** If an active member had £20,000 invested in this option on 30 September 2020, when they came to retire in 10 years, the savings pot could grow to £59,541 if no charges are applied but to £58,856 with charges applied.

Non-lifestyle investment choices

A1.16. The table below shows the following legacy money purchase funds: the BlackRock Aquila Life (30:70) Currency Hedged Global Equity Index Fund (the fund with the highest charges and highest assumed rate of return), the BlackRock Aquila Life Cash Fund (the fund with the lowest assumed future rate of return) and the BlackRock Aquila Life Over 5 Year Index Linked Gilt Index Fund (the fund with the lowest charges).

Illustration basis	Years from taking benefits	Default BlackRock Aquila Life (30:70) Currency Hedged Global Equity Index Fund		BlackRock Aquila Life Cash Fund		BlackRock Aquila Life Over 5 Year Index Linked Gilt Index Fund	
		Before charges	After charges	Before charges	After charges	Before charges	After charges
Active member Starting contribution £3,485 p.a.	0	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000
	1	£23,943	£23,904	£22,941	£22,910	£23,316	£23,290
	3	£32,103	£31,963	£28,620	£28,520	£29,890	£29,800
	5	£40,644	£40,368	£34,041	£33,858	£36,388	£36,220
	10	£63,780	£62,997	£46,535	£46,101	£52,305	£51,879
	15	£89,708	£88,136	£57,653	£56,918	£67,764	£66,997
	20	£118,767	£116,065	£67,546	£66,474	£82,780	£81,592
	25	£151,332	£147,092	£76,350	£74,918	£97,364	£95,682
	30	£187,829	£181,563	£84,183	£82,377	£111,528	£109,284
35	£228,731	£219,859	£91,153	£88,968	£125,286	£122,416	
Deferred member No contribution	0	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000
	1	£20,461	£20,425	£19,539	£19,511	£19,884	£19,860
	3	£21,415	£21,303	£18,647	£18,568	£19,653	£19,582
	5	£22,414	£22,219	£17,797	£17,670	£19,425	£19,308
	10	£25,120	£24,685	£15,836	£15,611	£18,867	£18,641
	15	£28,152	£27,424	£14,092	£13,793	£18,325	£17,996
	20	£31,550	£30,467	£12,539	£12,186	£17,798	£17,373
	25	£35,358	£33,847	£11,158	£10,766	£17,287	£16,773
	30	£39,626	£37,603	£9,929	£9,512	£16,790	£16,193
35	£44,409	£41,776	£8,835	£8,404	£16,308	£15,633	

A1.17. **Note on how to read this table:** If an active member had £20,000 invested in the BlackRock Aquila Life Cash Fund on 30 September 2020, then after 10 years of membership, the savings pot could grow to £46,535 if no charges are applied but to £46,101 with charges applied.