

Nestlé UK Pension Fund (DC Section) Statement of Investment Principles

April 2023

1. Introduction

1.1. Document Purpose

This document contains the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995, for the Nestlé UK Pension Fund ('the Fund').

The Fund comprises of both a defined benefit and defined contribution section. This document covers the defined contribution section (DC Section) only of the Fund. It describes the investment policy being pursued by the Trustee of the Fund and reflects the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 and other legislation.¹

The Trustee has taken proper written advice from its investment advisers and consulted the Principal Employer to the Fund in the preparation of this SIP.

1.2. Fund Governance

Nestlé UK Pension Trust Limited ('the Trustee') acts as trustee of the Fund. Responsibility for setting the strategy and for managing the Fund rests with the Trustee. This includes responsibility for the governance and investment of the Fund's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Fund as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to its appointed investment managers and / or its advisors as appropriate.

In order to effectively manage the varied requirements of running the Fund, a number of sub-committees are in operation, each with its own delegated powers and terms of reference. This includes the Defined Contribution Committee (the DCC). The Trustee has also appointed an Investment Executive to assist in carrying out its duties.

Throughout this document any references to the Trustee may represent either the Trustee, the DCC or the Investment Executive (with the appropriate delegated authority from the Trustee).

The Trustee takes advice from its investment advisers to ensure that the assets of the Fund are invested in accordance with the policies set out in this SIP and the requirements of section 36 of the Pensions Act 1995.

¹ The Trustee's Statement of Investment Principles for the DC Section contained in this document include the:

1 Statement of the aims and objectives for the default arrangement in accordance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005 (the "Investment Regulations");

2 Statement of the aims and objectives for investment options outside the default arrangement in accordance with Regulation 2A(1) of the Investment Regulations; and

3 Statement of investment beliefs, risks and policies in accordance with Regulation 2 of the Investment Regulations.

The Statement of Investment Principles for the DC Section of the Fund in accordance with Regulation 2 of the Investment Regulations comprises items 1, 2 and 3.

The Statement of Investment Principles for the DC Section of the Fund's default arrangement as required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 comprises items 1 and 3.

1.3. Investment Implementation Document

It is intended that the SIP should be “principles based” in nature, and as such further details on the specific elements of the investment strategy are contained in a separate document, titled the Investment Implementation Document (“IID”). Both the SIP and the IID should be read in conjunction.

2. Investment Beliefs

2.1. Investment beliefs

The Trustee, having consulted with its investment advisers, has adopted a set of investment beliefs. These assist the Trustee in its consideration of investments and are as follows:

- An effective investment strategy must have clearly defined objectives for both return and risk and clear measures of success that allows progress to be monitored.
- To meet our objectives, we – the Trustee - need a clear understanding of the risks that we are taking and to only take risks that we believe are adequately rewarded. To the extent it is possible, we try and mitigate any unrewarded risks through strategies such as hedging.
- The most significant contribution to meeting our investment objectives will come from our strategic asset allocation and risk management choices.
- Good governance and decision-making will positively impact our ability to meet our objectives.
- Our approach to investment should avoid unnecessary complexity.
- Over the long-term, higher-risk assets such as equities are expected to outperform lower-risk assets (such as bonds), but their returns are also expected to show higher variability.
- Diversification within and across asset classes reduces the risk created by particular investments failing and should lower the volatility of overall returns.
- We believe that investments should be assessed in a value-based context, i.e., the impact of investments on both expected and actual risk-adjusted returns should be viewed net of costs. Additionally, the impact of costs needs to be understood before we invest, and they should be kept as low as possible without compromising our objectives.

2.2. Responsible Investment

- Environmental, social and corporate governance considerations including but not limited to climate change (collectively referred to as “ESG” factors) are likely to be financially material.
- In the long term better financial returns are likely to be achieved by investing in companies and assets that demonstrate they contribute to the long-term sustainable success of the global economy.
- Engagement is the preferred means of aligning the Fund’s investments with the goals of the Trustee, but the Trustee will retain the right to follow an exclusion and divestment strategy where engagement fails to yield meaningful alignment and where consistent with the Trustee’s fiduciary duties.
- Achieving alignment with the goals of the Paris Agreement² is likely to be in the long-term financial interests of the Fund and its members and the Trustee will incorporate consideration of this goal into strategic decision making.
- ESG factors will become increasingly financially material and an important factor in strategic decision making. The Trustee recognises that there is ongoing development in the understanding of these

² The 2015 Paris Agreement is an international treaty on climate change. Its goal is to substantially reduce global greenhouse gas emissions and to limit the global temperature increase in this century to 2 degrees Celsius while pursuing means to limit the increase even further to 1.5 degrees, compared to pre-industrial levels. You can read more about this here: <https://www.un.org/en/climatechange/paris-agreement>.

factors overall and the financial impact they can have. Therefore, the Trustee will endeavour to evolve its thinking over time to further incorporate future developments in this area.

3. Investment Objectives

3.1. Background to the default arrangement and investment options

The Fund is a qualifying scheme for auto-enrolment purposes and so must have a default arrangement.

The Trustee believes that it should be easy to become a member of the DC Section, and to start building retirement benefits, without the need to make any investment decisions and that a majority of the DC Section's members are expected to have broadly similar investment needs. Therefore, the DC Section makes available a default arrangement (known as the Default Option), for members who choose not to make an active investment choice.

Members in DC Start have their accounts automatically invested in the Default Option while members in DC Core have a choice about where their account is invested.

In addition to the Default Option, the DC Section offers members a choice of self-select investment options.

Further information on the Default Option and the self-select investment options is given in sections 3.2 and 3.3 respectively.

3.2. Objectives for the Default Option

The Trustee's overall objective is to invest contributions in the best interests of members and their beneficiaries.

The main objective of the Default Option is to provide good member outcomes at retirement while subject to a level of investment risk which is appropriate to the majority of members who do not make active investment choices.

The Trustee believes that it is in the best interests of the majority of members to offer a default which:

- Manages the principal investment risks members' face during their membership of the Fund;
- Maximises investment returns relative to inflation while taking an appropriate level of risk during membership of the Fund for the majority of members who do not make investment choices; and
- Reflects members' likely benefit choices at retirement.

The Fund's Default Option is a lifestyle strategy which:

- Gradually moves investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the DC Section; and
- Targets taking cash at retirement and / or UFPLS for a few years into retirement. This reflects the way in which the majority of members will choose to take their DC benefits that are held within the Fund.

3.3. Objectives for the self-select investment options

The DC Section offers members a choice of investment options as an alternative to the Default Option. The self-select investment options are offered because:

- While the Default Option is intended to meet the needs of a majority of the DC Section's members, it may not meet the needs of a wider cross-section of members;
- Attitudes to investment risks and the need for investment returns will vary from member to member and will also vary for each member over time and, in particular, as they approach retirement;
- Members have differing investment needs and these needs change during their working lives; and
- Some members will want to be more closely involved in choosing where their contributions are invested.

The objectives of the self-select investment options are to:

- Provide a choice of individual funds for members who want to be more closely involved in choosing where their pension pots are invested;
- Complement the objectives of the Default Option;
- Provide a broader choice of levels of investment risk and return;
- Help members more closely tailor how their pension pots are invested to their personal needs and attitude to risk;
- Help members more closely tailor how their pension pots are invested to reflect the benefits they intend to take at retirement.

The Trustee also recognises the importance of offering a suitable range of investment options for members who wish to express an ethical preference in their pension saving. The Trustee offers a number of ethical funds as self-select investment options and keeps the range of self-selected funds under review.

Nevertheless, the self-select investment options cannot be expected to cover all the investment needs of all members.

3.4. Choosing the default arrangement and the investment options

The Trustee believes that understanding the DC Section's membership is essential to designing and maintaining a default arrangement which meets the needs of the majority of members and an appropriate range of investment options for members who do not wish to invest in the default arrangement.

In choosing what is felt to be an appropriate default, the Trustee has taken into account a number of factors including: members' projected pot sizes at retirement, contribution levels, the level of replacement income that members are likely to require and the likely return on investment after the deduction of charges payable on the funds used by the Default Option.

In choosing what is felt to be an appropriate range of investment options, the Trustee has taken into account of the following aspects including:

- the members' age and salary profile;
- the likely sizes of members' pension pots at retirement,

- members' retirement dates and likely range of benefit choices at retirement,
- the levels of investment risk and return members may be willing to take,
- the degree to which members are likely to take an interest in where their contributions are invested; and
- that some members may have strong personal views or ethical / religious convictions that influence where they believe their savings should, or should not, be invested.

The investment costs are borne by members and so a balance needs to be struck between choice and costs.

3.5. Creation of alternative “defaults”

In some circumstances changes to the Default Option or a self-select investment option may result in monies being invested in or transferred to an alternative fund without a member’s consent (such as fund suspensions) which may result in funds other than the Default Option being deemed as “default” investment arrangements for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015. A default arrangement is protected by the charge cap so that member charges for that arrangement do not exceed 0.75% p.a. Additional governance duties will also apply including setting out the suitability of these default arrangements in the SIP. Where a fund becomes a “default arrangement” for these purposes, the Trustee will apply the principles set out in this SIP in respect of the Default Option to the extent they are relevant to the fund. Further details may be set out in the IID in respect of any funds which have become “default arrangement” for these purposes.

4. Summary of the Fund's Investment Strategy

4.1. Investment strategy for the Default Option

The Default Option consists of one pathway fund, containing three phases within the 'lifecycle' of pension savings: a growth phase, a consolidation phase and a pre-retirement phase.

The Default Option aims to:

- invest in funds which are expected over the long-term to deliver strong returns relative to inflation for members up to 15 years from retirement;
- progressively invest in funds which are expected over the long-term to deliver good returns relative to inflation, while seeking to control the level of volatility in fund values (compared to equities), for members 15 to 5 years from retirement whose accumulated funds are expected by then to have grown to a size where the value at risk is material;
- during the last 5 years before retirement, increasingly invest in lower risk funds (and cash) which are expected to help mitigate fluctuations in the sizes of both members' fund values and the benefits members are likely to take at retirement.

Full details of the current default arrangement (the Default Option) are provided in the IID.

4.2. Investment strategy for the self-select investment options

The Trustee offers members a range of self-select investment options. Each fund consists of one or more investments in pooled investment vehicles operated by a range of different investment managers. The funds have been designed by the Trustee and "white labelled" to reduce disruption to members should a change need to be made at manager or strategy level.

Full details of the current self-select investment options, including the fund objectives, charges and underlying investments are provided in the IID.

4.3. Additional Voluntary Contributions ("AVCs")

The Trustee also has legacy AVC arrangements with Standard Life. Members are no longer able to make contributions to these legacy AVC funds, but existing assets may remain invested until further notice. All benefits held with Standard Life are in With-Profits funds.

5. Investment Managers

The Trustee delegates day to day investment decisions to suitably qualified independent investment managers. Investment managers are carefully selected to manage each of the underlying mandates following guidance and written advice from the Trustee's investment advisers.

The Trustee selects the Fund's investment managers with an expectation of a long-term appointment, although the legal terms of the contracts may provide for different durations according to asset class.

Mandates take the form of an investment in a pooled investment vehicle operated by a specific investment manager and made available to the Fund through an investment platform. This enables the DC Section to invest in a range of funds giving a good spread of investments in a cost-effective manner. The performance targets, benchmarks, restrictions and fees are set out in the respective fund documentation available on the Nestlé pensions website.

When investing in a pooled investment fund, the Trustee ensures the investment objectives and guidelines of the fund are consistent with the Trustee's investment policies.

Full details of the managers currently used for the Default Option and the self-select investment options are provided in the IID.

5.1. Manager incentives

The basis of remuneration of the investment managers by the platform provider may be subject to commercial confidentiality, however, the Trustee will seek transparency of all costs and charges borne by members.

Nevertheless, the Trustee expects that it will be in the interests of both the platform provider and the investment managers on the provider's platform to produce growth in asset values in line with the funds' investment objectives. For passively managed funds this should be within an acceptable margin of the index the fund tracks. For actively managed funds the investment return should be commensurate with the level of investment risk implied by the fund's objectives.

When selecting funds, the Trustee will ask their investment advisor to consider the investment managers' remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment managers will act in line with the interests of the Fund's members.

In accordance with the 2015 Regulations, the Trustee conducts an annual Value for Members assessment and will take action should the investment managers be found to be giving poor value. The Trustee believes that these steps are the most effective way of incentivising the investment managers to deliver Value for Members, of which investment management charges and investment performance are key considerations.

The Trustee will also periodically review the Fund's choice of platform provider to ensure their charges and services remain competitive. The Trustee believe that these steps are the most effective way of incentivising the platform provider to deliver Value for Members.

5.2. Manager review and monitoring

The Trustee regularly monitors the Fund's investment managers to consider the extent to which the investment strategy and decisions of the managers are aligned with the Trustee's policies. This includes monitoring:

- the managers' performance (net of fees and costs) against a benchmark appropriate to each manager, taking into account the level of risk taken by each manager. Performance targets are monitored over short, medium and long-term horizons;
- the extent to which the managers make decisions based on assessments about medium- to long-term performance and engage with underlying investee companies in order to improve their performance in the medium- to long-term;
- the managers' approach to responsible investment and alignment with the Trustee's policies in this area; and
- the managers' fees and costs related to portfolio turnover where the data is disclosed and available.

To assist the Trustee in assessing performance the Trustee's investment advisers provide relevant reporting on a quarterly basis.

Should the Trustee's monitoring process reveal that a manager's investment strategy and investment decisions are not aligned with the Trustee's policies, the Trustee will engage with the manager to discuss how alignment may be improved. This includes specific consideration of the Fund's responsible investment policies (see 8 below). If, following engagement with the manager, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the arrangements with the manager may be altered or their appointment terminated.

5.3. Security of DC assets

The Trustee uses a platform provider to access funds. The value of the funds may be affected in the event of the provider getting into financial difficulties.

The underlying funds used by the provider's platform are accessed through reinsurance agreements / unit purchase agreements / segregated investment mandates. In the event of a fund manager getting into financial difficulties, the values in these underlying funds will depend upon the nature of the contract with the platform provider and the fund vehicles used by the fund managers' funds.

6. Costs and charges

The Trustee is aware of the importance of monitoring the investment managers' total costs and the impact these costs can have on the overall value of the Fund's assets.

Fees are charged by the Trustee's managers either as a proportion of the assets under management or are related to performance targets. They are negotiated individually when a manager is appointed and are reviewed periodically. The Trustee takes advice from its investment advisers to ensure that fees are commensurate with the services provided.

In addition to annual management charges, there are other costs incurred by investment managers (including portfolio turnover costs) that can increase the overall cost incurred by its investments. Portfolio turnover costs are a necessary cost to generate investment returns and the level of these costs varies across asset classes and manager. The Trustee keeps them under review with the help of its investment advisers to ensure that they are appropriate. No specific ranges are set for portfolio turnover costs.

The Trustee monitor the Funds' transaction costs to ensure that they are reasonable and represent value for money to members.

The Trustee provides an annual review of the costs and charges in relation to the Default Option and the self-select investment options in its annual DC Chair's Statement in the Fund's annual report and accounts. The DC Chair's Statement also confirms the results of monitoring during the preceding year (for example, investment performance is reviewed as part of the Value for Members Assessment, which is summarised in the Chair's Statement).

7. Types of investments held

The DC Section invests through pooled investment vehicles in accordance with the Fund's investment strategy set out in section 4. These funds may invest in:

- quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, commercial and residential property, infrastructure, commodities and derivatives to facilitate efficient portfolio management.

The investment managers are expected to maintain diversified portfolios and to avoid excessive reliance on any particular asset, issuer or group of undertakings.

Subject to the funds' benchmarks and guidelines, the investment managers are given discretion over the choice of securities and, for "multi-asset" funds, of asset classes.

7.1. Realisation of investments

Funds need to be sold to make payments of benefits and to undertake fund switches either in accordance with the asset allocation changes as prescribed by the Default Option or as requested by individual members. The Trustee normally expects the investment managers to be able to realise the funds within a reasonable timescale. The Trustee recognises that the investment managers may at times need to impose restrictions on the timing of purchases and sales of funds (most notably investing in property) in some market conditions to protect the interests of all investors in a fund.

7.2. Expected returns on investments

The Trustee receives professional independent investment advice on the expected levels of investment returns (after the deduction of charges) and risks for the funds used for the Default Option and self-select investment options to ensure that they are consistent with the Trustee's objectives set out in section 3.

The Trustee believes that it is important to balance investment risks with the likely long-term returns from different types of assets used in funds (taking the funds' costs and charges into account). The expected returns on the principal asset classes and fund types within the DC Section are:

- **Equities** – should achieve a strong positive return relative to inflation over the longer-term, but tends to be the most volatile asset class over the shorter-term;
- **Corporate Bonds** – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities, but with a lower level of shorter-term volatility than equities;
- **Cash** – should deliver a positive return which may not always keep pace with inflation, while normally providing a minimal level of volatility and high degree of capital security;
- **Long-dated Government Bonds (Gilts)** – values should move broadly in line with the financial factors influencing annuity rates;
- **Diversified Growth / multi-asset funds** – invest in a varying mix of asset classes with an objective of delivering a target level of returns relative to inflation over the longer-term, with a target level of shorter-term volatility lower than equities.
- **Property** – should deliver a positive return but with lower levels of return and volatility compared to equities.

8. Responsible Investment

The Trustee is committed a responsible investor. Responsible investment is commonly defined as an approach which seeks to integrate environmental, social and corporate governance considerations including climate change (collectively referred to as “ESG” factors) into investment management processes and ownership practices.

The Trustee believes that ESG factors can have a material impact on financial performance and that considering ESG issues leads to more complete investment analyses and better-informed investment decisions consistent with the Trustee’s fiduciary and investment duties. We believe this helps to reduce investment risk in the Fund and enhance long-term portfolio returns, whilst also potentially contributing to secure a sustainable world for society.

In relation to the Default Option, the Trustee frames their investment strategy by reference to long-term risk and return assumptions which make implicit allowance for ESG risks. The Trustee has also developed further detailed policies which it applies in its dealings with the Fund’s investment managers to ensure that:

- minimum ESG standards are imposed for all managers and the Trustee periodically monitors compliance with these standards;
- financially material ESG-related risks and issues are monitored in relation to the Default Option and self-select investment options by reviewing each individual DC fund manager’s activities in relation to ESG issues on an ongoing basis through periodic reporting using a responsible investment framework agreed with the Trustee’s investment advisers;
- in selecting new investment funds, where relevant to the investment mandate, the Trustee explicitly considers potential managers’ approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making.

8.1. Stewardship

The Trustee has delegated all voting and engagement activities to the Fund’s investment managers. The Trustee accepts responsibility for how the manager stewards assets on its behalf, including the casting of votes in line with each managers’ individual voting policies. The Trustee reviews manager voting and engagement policies on an annual basis to ensure they are in line with the Trustee’s expectations and in members’ best interests. Prospective investment managers are also required to provide this information for the Trustee to review in advance of any new appointment.

Managers are expected to vote at company meetings and engage with companies on the Trustee’s behalf in relation to ESG considerations and other relevant matters (such as the companies’ performance, strategy, risks, capital structure, and management of conflicts of interest).

The Fund’s investment managers for both the Default Option and the self-select investment options are required to provide qualitative data to the Trustee on a regular basis regarding their recent voting and engagement activities.

The Trustee monitors the managers’ track record of engaging with companies using a responsible investment framework agreed with the Trustee’s investment advisers. The framework identifies six core ESG themes which have been selected as a priority for engagement based on advice as to their likely financial materiality to the Fund and alignment with the United Nations Global Compact principles. The core ESG themes are:

- Environment
- Climate Change
- Human Rights

- Labour Rights
- Corporate Governance
- Corruption

The core themes are kept under review by the Trustee and may be updated or added to periodically. Further detail on the core ESG themes selected can be found in Appendix 2 of this Statement.

Should the Trustee's monitoring process reveal that a manager's voting and engagement policies and actions are not aligned with the Trustee's expectations, the Trustee will engage with the manager to discuss how alignment may be improved. If, following engagement with the manager, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the arrangements with the manager may be altered or their appointment terminated.

8.2. Climate change

Climate change is a potential long-term material financial risk for the Fund which could impact the Fund's investments. The Trustee has developed a responsible investment policy which sets out its approach on addressing the risks and opportunities of climate change in more detail as well as wider ESG risks and opportunities.

As part of this policy, the Trustee has developed a monitoring process, which includes the setting of climate change-related goals/targets for the Fund, in support of the Trustee's commitment to manage and integrate the consideration of these issues within the Fund. As part of this process, the Trustee incorporates the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") by producing and publishing a TCFD-aligned report on an annual basis.

Recognising the importance of the transition to a net zero economy, the Trustee has set an overall ambition of reaching net zero portfolio emissions by 2050, in line with the 2015 Paris Agreement.

To help fulfil this ambition, the Trustee has set an interim target to achieve 60% of financed emissions in companies assessed as:

1. Having a verified Paris Aligned temperature pathway; or
2. For high impact companies that are flagged as not having a Paris-Aligned pathway, ensuring these companies are subject to structured engagement.

This target currently applies to NUKPF's public equity and corporate bonds and the timeframe for achieving this target is 2027. The target will be reviewed periodically.

8.3. Non-financial factors

The Trustee recognises that some members will have strong personal views or ethical / religious convictions that influence where they believe their savings should, or should not, be invested.

The Trustee recognises the importance of offering a suitable range of investment options for members who wish to express an ethical preference in their pension saving. The Trustee offers a number of ethical funds as self-select investment options and keeps the range of self-selected funds under review.

While the Trustee may take members' views into account when reviewing the suitability of the Fund's investment options and choice of funds used, the Trustee notes that non-financial factors can affect various investment risks which are borne by members and may under-perform other funds with broader-based investment approaches. The Trustee does not take non-financial factors into account in the selection, retention and realisation of investments in the Default Option.

9. Risk management and monitoring

All pension schemes are exposed to various risks. The principal investment risks the Trustee considers the Fund is exposed to are set out in Appendix 1.

The Trustee has developed and maintains a framework for assessing the impact of all investment risks on long-term investment returns.

9.1. Principal investment risks

The Trustee monitors the age profile of the DC Section's membership to arrive at an appropriate investment horizon when considering all investment risks. The investment risks for the Fund's youngest members need to be considered over a time horizon in excess of 40 years. The majority of the Fund's members who are currently approaching retirement are expected to take cash at retirement which informs the Default Option. Some members may choose to take their benefits in other forms (such as buying an annuity or income drawdown), the self-select investment options offers funds which help to manage this risk.

The Trustee believes that taking investment risk is usually rewarded in the long term, while asset allocation (i.e. the choice between asset classes, such as equities and bonds) is the key tool for managing the balance between risk and return.

To help mitigate the principal investment risks, the Trustee offers the Default Option, which automatically switches members from higher risk investments to lower risk investments as they approach retirement.

The Trustee believes that the self-select investment options available are appropriate for managing these risks.

9.2. Other investment risks

The Trustee manages the other investment risks as part of the process for selecting and ongoing monitoring of the funds used by the DC Section.

The funds used give a good spread of investments which will help manage risks associated with market conditions, fund manager actions and default.

Signed on behalf of the Trustee Directors of Nestlé UK Pension Trustee Limited as Trustee of the Nestlé UK Pension Fund:

Steve Delo		27 April 2023

Andrew Bayliss		27 April 2023

Appendix 1 – Risks

Principal investment risks

The Trustee believes that the three principal investment risks most members will face are:

1) Inflation risk – the risk that investment returns over members’ working lives may not keep pace with inflation and, as a result, do not produce adequate retirement benefits.

For members further from retirement, the Default Option invests in “return-seeking” assets during the “growth” phase, which are expected to produce returns well in excess of inflation over the longer term.

2) Benefit conversion risk – The risk that market movements in the period just prior to retirement lead to an increase in the cost of turning members’ fund values into retirement benefits.

Following the previous freedoms introduced in April 2015, the Default Option has been designed to facilitate members taking cash at retirement by switching into cash and into a lower volatility portfolio of assets during the pre-retirement phase.

For members planning to buy an annuity at retirement, the DC Section makes available, on a self-select basis, an annuity fund, which may be expected to broadly follow movements in annuity rates caused by interest rate changes as retirement approaches.

3) Volatility / Market risk – The risk that adverse movements in investment market values in the period prior to retirement lead to a reduction in the anticipated level of benefits.

For members approaching retirement, the Default Option invests in a greater allocation of funds which are expected to be subject to lower levels of volatility.

Other investment risks

The Trustee believes that other investment risks members may face include:

Investment manager risk - The risk that the investment managers fail to meet their investment objectives. The Trustee considers this risk, together with help from its advisers, as part of appointment and monitoring of the investment managers.

Active management risk - The risk that an investment manager will not deliver investment returns in line with investment markets generally or other investment managers.

The Trustee recognises that an actively managed fund may not deliver performance in line with the fund’s objectives / agreed benchmarks. The Trustee regularly monitors fund performance in order to monitor this risk.

Liquidity risk – The risk that funds which invest in more illiquid assets will not be able to accept investments or disinvestments requested by the Trustee and / or members.

The Trustee is satisfied that the pooled funds in which they invest have sufficient liquidity and may be realised quickly if required.

Counterparty risk – The risk that counterparties holding derivative-based assets may default leading to a reduction in a fund’s value.

The Trustee, in conjunction with their investment managers, manages counterparty risk by investing in pooled funds that offer suitable counterparty protection.

Currency risk – changes in exchange rates will impact the values of investments outside the UK when they are being bought or sold.

Interest rate risk – the value of funds which invest in bonds will be affected by changes in interest rates.

Default risk – for investments in bonds (where money is lent in return for the payment of interest), the company or government borrowing money fails to pay the interest due or repay the loan.

Environmental, Social and Governance (ESG) risks – The risk that ESG issues are not reflected in asset prices and / or not considered in investment manager decision making leading to underperformance relative to expectations.

Climate risk – The risk that climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

Platform provider counterparty risk – The risk that the value of funds may be affected in the event of the provider getting into financial difficulties.

Appendix 2 – Our Core Responsible Investment Themes

The Trustee has selected six core ESG themes based on advice as to their likely financial materiality to the Fund and alignment with the United Nations Global Compact principles³ (as indicated below).

Environmental	Social	Governance
<p>1. Environment</p> <p>Businesses should support a precautionary approach to environmental challenges;</p> <p>Undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies.</p> <p>UN Global Compact Principles 7, 8, 9.</p>	<p>3. Human rights</p> <p>Businesses should support and respect the protection of internationally proclaimed human rights; and make sure that they are not complicit in human rights abuses.</p> <p>UN Global Compact Principles 1, 2.</p>	<p>5. Corporate governance</p> <p>Businesses should adhere to and promote the tenets of good corporate governance.</p>
<p>2. Climate change</p> <p>Businesses should have a policy and process(es) for managing climate-related risks and opportunities.</p>	<p>4. Labour</p> <p>Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced and compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.</p> <p>UN Global Compact Principles 3, 4, 5, 6.</p>	<p>6. Corruption</p> <p>Businesses should work against corruption in all its forms, including extortion and bribery.</p> <p>UN Global Compact Principle 10.</p>

The Trustee uses the above six core themes to provide a focus of attention for the Trustee's engagement with the Fund's asset managers and the companies in which the Fund is invested. The Trustee, with input from Nestlé's Group Pensions Unit, has implemented regular reporting against these core themes. The core themes are kept under review by the Trustee and may be updated or added to periodically.

³ The United Nations Global Compact is a non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating 10 principles in the areas of human rights, labour, the environment and anti-corruption. You can read more about these here: <https://www.unglobalcompact.org/>