

THE KELLOGG'S (GREAT BRITAIN) PENSION FUND ("THE FUND")

DC GOVERNANCE STATEMENT – YEAR ENDED 5 APRIL 2021

1. Introduction

- 1.1 This statement describes how the Trustee Board has governed the Defined Contribution (DC) Section and the Additional Voluntary Contribution (AVC) arrangements within the Defined Benefit (DB) Section of the Fund during the year.
- 1.2 The Occupational Pension Schemes (Scheme Administration) Regulations 1996 require the Trustee to include an annual statement regarding governance in the annual report. This statement covers the period from 6 April 2020 to 5 April 2021.
- 1.3 The statement covers four principal areas:
 1. Investment, with a focus on the Fund's default investment arrangements.
 2. Internal controls, with particular focus on the processing of core financial transactions.
 3. Value, including charges and transaction costs deducted from members' funds.
 4. The knowledge and resources available to the Trustee Directors, including how the Trustee Directors maintained the statutory levels of knowledge and understanding to govern the Fund and how this helps to ensure that the Fund is governed effectively.

2. Investment Arrangements

Introduction and Default Investment Arrangement

- 2.1 A copy of the Fund's Statement of Investment Principles prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 is attached. This covers our aims and objectives in relation to the default investment arrangement as well as our policies in relation to matters such as risk, diversification, and environmental, social, and governance (ESG) considerations. It also states why we believe the default investment arrangement to be designed in members' best interests.
- 2.2 The default investment arrangement is the "Target Drawdown strategy". This is a target retirement dated fund approach designed to be broadly appropriate for members who intend to remain invested when they start drawing retirement benefits, and assumes that members invested in it will take benefits out in stages, through an income drawdown policy, starting at their normal or selected retirement date. At the current time the Fund does not provide an income drawdown facility, but members are able to transfer out of the Fund to access drawdown.
- 2.3 The default arrangement, the Target Drawdown strategy, invests in equities and other growth-seeking assets during the 'growth' phase of the strategy. Eight years prior to each member's selected retirement year (or the member's default normal retirement year where none is selected), investments are transferred to a Target Drawdown Retirement Fund based on the targeted retirement year. The Target Drawdown Retirement Fund gradually switches investments into a balanced mix of instruments by the year of the member's normal or selected retirement date, including cash, corporate and government bonds, equities and alternative asset classes such as property and infrastructure investments.
- 2.4 Members are also able to access alternative target retirement date strategies (targeting either full cash withdrawal at retirement or annuity purchase) and a range of self-select funds.

Strategic Review

- 2.5 In last year's statement it was noted that the Trustee Board had conducted a strategic review of the default investment arrangement in 2019. Our next strategic review is planned to take place in 2022.
- 2.6 However, we note that the Trustee has delegated to Mercer the investment management of the default investment strategy. Mercer carries out an annual review of the asset allocation of the strategy. During the year covered by this Statement, Mercer's investment review took place in May 2020 and the review encompassed the following:
- **Testing member outcomes in retirement** achieved by the strategy against the Pensions and Lifetime Savings Association's Retirement Living Standards. Success was defined as offering a greater than 50% chance that a member with a median pot size at retirement who takes a level of income sufficient to support a moderate living standard does not run out of money by the current median life expectancy in the UK.
 - **Consideration of risk and return characteristics** for the current approach (for example, expected long term returns, volatility, and the risk of downside outcomes for members) during both the growth phase of the strategy and the de-risking phase.
 - **Modelling of alternative asset allocations**, specifically whether a higher risk investment approach in the early years of the strategy would lead to better outcomes at retirement. The showed that there was no significant improvement in outcomes associated with a higher risk start.
- 2.7 The review concluded that the existing strategy remained appropriate to meet its investment objectives. No changes were made to the default investment strategy during the year covered by this statement.
- 2.8 Finally, we are also pleased to confirm that the Fund's Funding, Risk and Investment Committee continues to conduct performance and risk-based reviews of the default investment arrangement on a quarterly basis. In these reviews, the following issues are considered:
- Performance (net of fees) relative to fund benchmarks, default objectives (specifically, annuity price movements) and also relative to inflation measures.
 - For the default strategy, we also review annually the performance against a series of proxy benchmarks designed to reflect alternative options available to the Fund as regards the investment design.
 - The investment manager research ratings published by the Trustee's investment adviser, Mercer. These ratings include an assessment of each manager's Environmental, Social and Corporate Governance (ESG) capabilities and the extent to which these issues are integrated into investment processes.
 - Analysis of member experience throughout the 'de-risking' path.
 - Risk analysis, including volatility and experience of capital loss ("drawdowns").
- 2.9 The Fund's default investment strategy has achieved its performance and risk objectives over the period since inception, as have the alternative target date funds available to members, and the self-select fund options.

3. Internal Controls and Core Financial Transactions

Administration - Introduction

- 3.1 The Fund has appointed a professional third-party administrator, Aviva.
- 3.2 The Trustee has received assurance from the Fund's administrator, and has taken steps to seek to ensure, that there were adequate internal controls to ensure that core financial transactions relating to the Fund were processed promptly and accurately during the Fund year. This includes the investment of contributions, processing of transfers in and out of the Fund, transfers of assets between different investments within the Fund, and payment of benefits to members.

Administration – Monitoring and Core Financial Transactions

- 3.3 The Trustee has established with Aviva a number of monitoring metrics in order to assess the quality, accuracy, and timeliness of core financial transactions and broader administration services. These metrics are monitored on a quarterly basis by the Trustee, via the Administration Sub-Committee and the in-house team.
- 3.4 As noted in our last annual statement, in 2019, following feedback from the Fund's DC investment adviser, Mercer, along with direct feedback from the Fund, Aviva adopted a new quarterly reporting framework to allow the Trustee to better monitor administration. As a result, the metrics reviewed during the Fund year included:
- The time taken between the point a member makes a request, to the point at which *all* elements of the request have been handled. This is known as the “end-to-end” time and differs to the traditional way of measuring speed of service (SLA reporting) which will not account for periods of time when a request may be pended; and will generally only reflect how quickly each meaningful step of the request is tackled. Monitoring end-to-end time gives the Trustee a clearer view of the timeliness of services members receive.
 - Metrics that aim to measure the member experience, such as the proportion of member interactions with the administrator representing a situation where a member should not have to make contact (e.g. triggered by a member not receiving what they expected).
 - A complete schedule of contribution batch receipts, which assist the Trustee in checking that contributions are submitted within regulatory timescales.
 - Customer satisfaction and first point resolution scores. Given the small volume of Fund-specific transactions and issues, these are provided by Aviva for its business as a whole.

All information on servicing is broken down by the nature of a member's request (for example, transfers, contributions, and general information queries).

- 3.5 Service levels are monitored on a quarterly basis by the Trustee, via the Administration Sub-Committee and the in-house team. The Administration Sub-Committee takes a proactive approach to questioning the administrator about their service level reports. If administration service levels fall below the agreed target levels, the Trustee discusses the reasons for this outcome with the administrator through our Administration Sub-Committee and seek to ensure that plans are in place to improve service levels.
- 3.6 If any delays are experienced by members on administration queries, the administrator reports each quarter on the reasons why. This reporting, and discussions at Administration Sub-Committee and Trustee meetings, gives the Trustee Board insight into member activity, completion timescales for administration functions, and the reliability of administration controls.
- 3.7 The Trustee has engaged Mercer Workplace Savings (MWS) to provide ongoing governance support by monitoring Aviva's performance in delivering administration services. As part of its appointment, MWS has negotiated exclusive SLAs with Aviva, including financial penalties for the Fund in the event of breaches above agreed thresholds. This further helps the Trustee to ensure the prompt and accurate processing of core financial transactions. The SLAs monitored by MWS and the Trustee on a Fund-specific basis cover contribution processing, investment transactions, general enquiries, payments in and out, and documentation queries.
- 3.8 As at 31 March 2021, the Fund-specific SLA measures on average stood at 99.4%.

Administration – Additional Governance

- 3.9 Through the administrator, the quality of the common and conditional records in respect of member data is reviewed at least annually. The administrator provides an annual report summarising the quality of member records, allowing any actions to be identified and carried out. Quarterly monitoring of data is also in place, and the administrator reports to the Trustee in each quarterly administration report the pass rate of the “common data” tests recommended by the Pensions Regulator. As at 31 March 2021, the pass rate stood at 96%. For the small number of cases where the Fund's data did not meet the test, the majority were as a result of

incomplete (rather than absent) address information.

- 3.10 The administrator provides an AAF internal controls audit report each year. The last report received was published on 20 July 2021, covering the 12 months to 31 December 2020. The report noted the independent practitioners' opinion that, in all material aspects, the administrator's controls were suitably designed and those tested operated effectively.
- 3.11 The Trustee is pleased to confirm that core financial transactions were processed during the year well within applicable statutory timescales, and no material administration issues were experienced.

Broader Controls

- 3.12 The Trustee ensures that all third-party providers share their data security and cyber risk policies with the Trustee. These policies are reviewed, and the parties are questioned on any areas requiring clarity.
- 3.13 The Fund maintains a Risk Register which outlines the risks to members and the Fund, including those in relation to financial transactions, and considers the impact, likelihood, controls and mitigation steps for each risk. The Risk Register is subject to ongoing monitoring and review as part of "business as usual" operation of the Fund.
- 3.14 The Fund maintains close working links between the in-house pension team and the administrator. Monthly calls are held between the in-house team, the administrator, and the Fund's DC adviser, in order to monitor projects and identify areas for ongoing improvement.
- 3.15 A Registered Auditor is appointed to undertake an annual audit. The Fund Auditor independently tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process.
- 3.16 In addition, the Trustee has oversight of the core financial transactions of the DB section AVC arrangement with Prudential. With effect from 1 April 2021 no new contributions are permitted to be paid to Prudential (members affected were notified of this closure to new contributions). As the arrangement is small and closed, financial transactions are limited, but no issues were experienced during the year.
- 3.17 The Trustee Board is confident that the processes and controls in place with the administrator are robust and will continue to ensure that the financial transactions which are important to members are dealt with properly.

4. Value, Charges and Transaction Costs

- 4.1 The range of the levels of charges and transaction costs applicable to the default arrangements during the period are detailed in this section.

Charges

- 4.2 Note that a "total expense ratio" reflects the total costs associated with managing and operating an investment fund, including investment management fees, fund legal fees, investment platform fees and any other expenses.

Transaction Costs

- 4.3 When buying and selling investments, transaction costs can be incurred. These costs are not explicitly deducted from a fund but are captured in its performance (in other words, the higher the transaction costs, the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (in Policy Statement 17/20) to fund managers regarding calculations and disclosures of transaction costs. Due to the way in which such costs must be calculated, they can be negative or positive; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.

Fund Information

- 4.4 In the following table, we set out the charges and transaction costs applicable to the funds used

in the default investment arrangement and the other investment funds available to members across the full Fund year.

4.5 Funds used as part of the default investment option are shaded in blue.

Fund	Total Expense Ratio % p.a.	Transaction Costs %
Mercer Growth / Balanced Risk	0.20	0.08
Mercer Target Drawdown 2021 Retirement	0.25	0.11
Mercer Target Drawdown 2022 Retirement	0.24	0.10
Mercer Target Drawdown 2023 Retirement	0.25	0.10
Mercer Target Drawdown 2024 Retirement	0.26	0.10
Mercer Target Drawdown 2025 Retirement	0.25	0.10
Mercer Target Drawdown 2026 Retirement	0.23	0.09
Mercer Target Drawdown 2027 Retirement	0.22	0.09
Mercer Target Drawdown 2028 Retirement	0.20	0.09
Mercer Diversified Retirement	0.21	0.12
Mercer Annuity Retirement	0.11	0.00
Mercer Target Annuity 2021 Retirement	0.13	0.00
Mercer Target Annuity 2022 Retirement	0.13	0.00
Mercer Target Annuity 2023 Retirement	0.13	0.01
Mercer Target Annuity 2024 Retirement	0.15	0.02
Mercer Target Annuity 2025 Retirement	0.16	0.03
Mercer Target Annuity 2026 Retirement	0.17	0.04
Mercer Target Annuity 2027 Retirement	0.18	0.06
Mercer Target Annuity 2028 Retirement	0.19	0.06
Mercer Cash Retirement	0.08	0.01
Mercer Target Cash 2022 Retirement	0.10	0.11
Mercer Target Cash 2023 Retirement	0.11	0.01
Mercer Target Cash 2024 Retirement	0.13	0.02
Mercer Target Cash 2025 Retirement	0.14	0.02
Mercer Target Cash 2026 Retirement	0.16	0.03
Mercer Target Cash 2027 Retirement	0.17	0.05
Mercer Target Cash 2028 Retirement	0.19	0.05
Mercer Diversified Growth	0.24	0.21
BlackRock - Passive UK Equity	0.01	0.00
BlackRock - Passive Overseas Equity	0.00	0.00
BlackRock - Passive Global Equity (50:50)	0.01	0.00
BlackRock - Passive Emerging Markets Equity	0.24	0.00
BlackRock - Passive Corporate Bonds	0.02	0.00
BlackRock - Passive Fixed Interest Gilts	0.01	-0.05
BlackRock - Passive Index-Linked Gilts	0.00	0.00
BlackRock - Cash	0.00	0.01

Source: Aviva. Note that total expense ratios and transaction costs can and do vary over time.

4.6 In respect of the small legacy AVC policy held with Prudential, the underlying funds are held through a bundled contract whereby Prudential levy the following a total expense ratio charges:

Fund Name	Yearly Total (%)
Prudential With-Profits Fund	1.00*
Prudential With-Profits Cash Accumulation Fund	1.00*
Prudential Discretionary Fund	0.78
Prudential Dynamic Growth II Fund	0.73
Prudential Dynamic Growth IV Fund	0.73
Prudential Long -Term Gilt Passive Fund	0.66
Prudential UK Equity Passive Fund	0.66

* In relation to its With-Profits Funds Prudential has advised that no explicit charges are taken but an allowance for expenses is made when bonus rates are declared. This allowance is known as the annual charge and is reviewed each year. During the year the annual charge was 1.00% of funds invested.

The total expense ratios shown in the table include the Annual Management Charge (AMC) for looking after the fund's investments, plus other miscellaneous fund administration fees and costs. The total does not include any applicable transaction costs. This is because Prudential has been unable to provide transaction cost reporting.

Impact of Costs and Charges

4.7 Using charges and costs information provided by Aviva and in accordance with Regulation 23(1) (ca) of the Administration Regulations, the Trustee has prepared illustrations detailing the impact of the costs and charges typically paid by a member of the Fund on their retirement savings pot. Statutory guidance has been considered when providing these examples.

4.8 The illustrations have taken into account the following elements:

- An initial fund value of zero, to reflect the typical starting pot size of a new member.
- Contributions assumed to be paid £100 monthly increasing in line with assumed earnings inflation of 2.5% p.a. This level of contribution has been chosen to allow members to extrapolate the approximate impact of charges based on their own circumstances.
- Real terms investment returns gross of costs and charges.
- Adjustment for the effect of costs and charges.
- Time period of investment.

At End of Year	Default Growth Phase & Most Popular Fund Mercer Growth / Balanced Risk		Default De-Risking Phase Fund Example Mercer Target Drawdown 2023	
	Pot size with no charges incurred	Pot size with charges incurred	Pot size with no charges incurred	Pot size with charges incurred
1	£1,190	£1,190	£1,190	£1,190
2	£2,400	£2,390	£2,370	£2,360
3	£3,620	£3,600	£3,550	£3,540
4	£4,850	£4,820	£4,740	£4,700
5	£6,100	£6,050	£5,920	£5,870
10	£12,500	£12,300	£11,800	£11,600
15	£19,300	£18,900	£17,700	£17,200
20	£26,500	£25,700	£23,500	£22,700
25	£34,000	£32,800	£29,300	£28,100
30	£42,000	£40,200	£35,100	£33,300
35	£50,400	£47,800	£40,800	£38,400
40	£59,200	£55,800	£46,500	£42,500
45	£68,600	£64,100	£52,200	£48,400
50	£78,400	£72,700	£57,900	£53,200

At End of Year	Fund with Highest Assumed Net Growth Rate and Lowest Costs and Charges* BlackRock - Passive Overseas Equity		Fund with Lowest Assumed Net Growth Rate Mercer Cash Retirement		Fund with Highest Costs and Charges Mercer Target Drawdown 2024	
	Pot size with no charges incurred	Pot size with no charges incurred	Pot size with charges incurred	Pot size with no charges incurred	Pot size with charges incurred	Pot size with charges incurred
1	£1,200	£1,200	£1,170	£1,170	£1,190	£1,190
2	£2,420	£2,420	£2,320	£2,320	£2,380	£2,370
3	£3,670	£3,670	£3,450	£3,450	£3,570	£3,550
4	£4,940	£4,940	£4,560	£4,560	£4,770	£4,730
5	£6,230	£6,230	£5,640	£5,630	£5,960	£5,910
10	£13,100	£13,100	£10,800	£10,700	£12,000	£11,800
15	£20,700	£20,700	£15,400	£15,300	£18,100	£17,600
20	£29,000	£29,000	£19,600	£19,400	£24,200	£23,300
25	£38,200	£38,200	£23,400	£23,200	£30,400	£29,100
30	£48,300	£48,300	£26,900	£26,500	£36,700	£34,700
35	£59,400	£59,400	£30,000	£29,600	£43,000	£40,300
40	£71,700	£71,700	£32,800	£32,300	£49,400	£45,900
45	£85,200	£85,200	£35,400	£34,800	£55,800	£51,400
50	£100,000	£100,000	£37,700	£37,000	£62,300	£56,900

*The total member-borne cost for this fund is zero, hence the illustration is identical for the pot size both with and without charges incurred. This fund has also been used as an illustration of one of the funds with the lowest costs and charges. In practice, as a number of funds have a TER of 0% p.a., it is just one example. For funds with negative transaction costs these are assumed to be zero for the purpose of the illustrations, on the grounds of prudence.

Notes:

- i. All figures have been rounded. Values are estimates and are not guaranteed.
- ii. Illustrations provided based on underlying cost data as at 31 December 2020, this representing the fullest data set that Aviva has received from the external investment managers.
- iii. Transaction cost information used represents an average of the last 5 years up to 31 December 2020.
- iv. Projected values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- v. The starting pot size is assumed to be £0 and contributions are assumed to be paid £100 monthly increasing in line with assumed earnings inflation of 2.5% p.a.
- vi. Projected growth rates use the same underlying assumptions as the SMPI assumptions plus any costs and charges not already included in the assumptions.

Value for Members

- 4.9 The Trustee assesses annually the extent to which the charges and transaction costs paid by members represent good value for members and has concluded, following receipt of a report from its DC adviser, that the Fund offers good value for money relative to peers including other pension schemes of a similar size and nature (using data from Mercer, investment managers, pension providers and other public surveys) and relative to options available to the Trustee with alternative investment managers and providers.
- 4.10 The Trustee conducts an annual Value for Money assessment in order to arrive at this conclusion, incorporating consideration of:
- Total expense ratio costs borne by members
 - Transaction costs
 - Net of cost performance
 - Investment risk measures
 - Contribution rates
 - Governance arrangements
 - Fund range available to members
 - Investment manager and platform provider ratings, including consideration of Environmental, Social and Governance (ESG) issues.
 - Member feedback
 - Other member services, such as in-house pension team support and online tools.
- 4.11 A proportionate approach is adopted for ongoing review of the AVC arrangement in the DB section on the basis that the AVC holdings are relatively modest (c. £1.6m as at 5 April 2021). The Trustee's assessment in this respect is that the arrangement represents reasonable value for members but that better value funds are available through the "main" DC Section. As such, with effect from 1 April 2021 no new contributions are permitted to be paid to Prudential (members affected were notified of this closure to new contributions). Active members are able to pay AVCs to the main DC Section.

5. Trustee Knowledge and Understanding

- 5.1 The requirement under the Pensions Act 2004 (requirement for knowledge and understanding) has been met during the year by the Trustee as a body in dealing with the whole Fund (not just the DC Section).
- 5.2 The Trustee Board has put in place arrangements for ensuring each Trustee Director takes personal responsibility for keeping up to date with relevant developments and each quarter consider training requirements. Training logs are maintained for each Trustee and training for the full board and its various Committees is provided regularly during quarterly meetings. Training plans are bespoke and tailored to issues that arise on the Trustee's business plan.
- 5.3 The Trustee has adopted a robust training programme in place for new Trustee Directors. For the Fund, upon appointment, a Trustee Director is required to undertake an induction process. This includes training with the in-house pension department and completion of the Pensions Regulator's online toolkit. No new Trustee Directors were appointed during the year.
- 5.4 During the year, the training topics considered by the Trustee were delivered, for example, through the DC adviser's "current topics" training material. Additional specific training sessions were also held during the Fund year. Those relevant to the DC benefits within the Fund were:
- Changes to the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations which brought in new requirements for the Statement of Investment Principles (in particular the inclusion of details regarding arrangements with the asset managers).

- New requirements for trustees to prepare an implementation statement, including training on the content and timescales for the publication of this statement.
 - Fund-specific training on the Fund's historic Deeds and any actions required.
 - An in-depth training session on DC, covering investments, contributions, retirement options, and administration matters. This training session was held for the full Trustee Board.
- 5.5 The Trustee also periodically conduct assessments of its effectiveness as a Trustee Board. These assessments include candid feedback on the Trustee Board's operating framework and performance generally. They also provide insight to areas where we can improve our effectiveness by identifying training needs. The most recent review was conducted in March 2021 and considered:
- A review of Trustee performance during the prior year
 - Next steps for future development
 - Efficiency of operation of meetings and meeting preparation
 - Challenges and training needs for 2021
 - Review of Trustee performance collectively, and individual reviews of the Board and Committee Chairs
- 5.6 The Trustee Directors are conversant with, and have demonstrated a working knowledge of, the Trust Deed and Rules. If there are any ambiguities over the interpretation of the Trust Deed and Rules, legal advice is sought from the Fund's legal advisers. As noted in paragraph 5.4, as part of a schedule of training events held in 2020, the Trustee Board received training from the Fund's legal advisers on Trustee discretions and the Fund's historic Deeds (this took place on 3 August 2020), which helped to support the Trustee Directors in fulfilling their duty to be conversant with the Trust Deed and Rules.
- 5.7 The Trustee Directors are conversant with, and have a working knowledge of, the Statement of Investment Principles. As noted in paragraph 5.4, training was carried out during the year (on 2 June 2020, for the Funding, Risk and Investment Committee) on requirements that came into force from October 2020 regarding policies in relation to investment manager arrangements.
- 5.8 An independent professional Trustee has been appointed, who has a wide range of experience and skills to complement the knowledge and understanding of the Employer and Member-nominated Trustee Directors.
- 5.9 In addition, the Trustee receives advice from professional advisers and the relevant skills and experience of those advisers is a key criterion when evaluating advisers or selecting new advisers.
- 5.10 The Trustee Directors in office over the period have all completed the Pension Regulator's Trustee Toolkit.
- 5.11 Taking account of actions taken individually and as a Trustee body, and the professional advice available, the Trustee Board considers that it is enabled to properly exercise its function.

6. Trustee Statement of DC Governance

- 6.1 The Trustee considers that the Fund's systems, processes and controls across key governance functions are consistent with those set out in The Pensions Regulator's Code of Practice.