Kellogg's (Great Britain) Pension Fund

Statement of Investment Principles – March 2021

1. Introduction

The Trustee Directors[1] of the Kellogg's (Great Britain) Pension Fund (the "Trustees" of the "Fund") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of: the Pensions Act 1995 ("the Act"), subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments.

In preparing this Statement the Trustees have consulted the employer and will consult with the employer before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

The Fund has a Defined Benefit Section and a Defined Contribution Section. These are covered separately in Section 2 and 3 respectively.

2. Defined Benefit Section

2.1 Process For Choosing Investments

The Trustees have considered their objectives for investing the Fund's assets. In considering the appropriate investments for the Fund the Trustees have obtained and considered as appropriate the written advice of their actuary (Willis Towers Watson) and their investment consultant (Mercer) whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended) and subsequent legislation.

The Trustees have considered their Investment and Funding objectives together and in light of the strength of the employer covenant to ensure that the two are compatible and supportable. They have then constructed a portfolio of investments consistent with these objectives and which they hope will deliver the maximum level of return (net of all costs) for the level of risk taken on (taking into account limitations on the overall complexity of arrangements appropriate to the size of assets under management).

The Trustees take into account what they believe to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance ("ESG") issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Fund. Specific considerations are detailed throughout this Statement.

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[1] Reference to Trustees may include the Funding Risk and Investment Committee ("FRIC") which is charged with taking certain decisions on behalf of the Trustees in line with its Terms of Reference.

2.2 Investment Objectives

The objectives set out here, and the risks and other factors referenced in this Section, are those that the Trustees determine to be financially material considerations in relation to the Fund.

The Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed. The Trustees' primary objectives are as follows:

- To ensure that the Fund holds sufficient assets to meet the liabilities of the Fund as they fall due, when combined with any contributions paid in by the Company;
- Consistent with the above, to invest the assets in such a way as to achieve or exceed the level of return assumed by the Scheme Actuary while ensuring suitable liquidity and limiting expected variability in the funding position to a level that is no higher than is necessary to achieve the level of return targeted and does not put at risk the ability to meet the above objective.

The Trustees, in consultation with the employer, will consider a number of options for seeking to reduce risk within the Fund. This includes considering transferring liabilities to an insurance company when funding levels and costs allow (taking into consideration the attractiveness of insurance company rates and good outcomes for members) in order to safeguard members' benefits.

The Trustees recognise this ultimately means investing in a portfolio of bonds and / or insurance policies, but believe that at the current time some investment in equities and other growth assets is justified to target enhanced return expectations and thereby target funding level improvements. The Trustees recognise that this introduces investment risk and these risks are discussed in this Statement.

In pursuit of the above, the Trustees aim to achieve a full funding position on a low-risk actuarial basis (gilts +0.50% p.a.) over the medium term and will consider reducing risk as the funding position relative to this basis improves.

Given the nature of the liabilities, the investment time horizon of the Fund is potentially long term. However, opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Fund's investment horizon significantly.

2.3 Risk Management and Measurement

There are various risks to which any pension scheme is exposed, which the Trustees believe may be financially material to the Fund. The Trustees' policy on risk management over the Fund's anticipated lifetime is set out below.

The Trustees recognise that whilst increasing risk may increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's accrued liabilities. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

The primary investment risk upon which the Trustees have focused is a deterioration in the value of assets relative to the value of the liabilities, as assessed on the Trustees' funding basis, beyond the level that the Sponsor is willing or able to rectify through additional payments.

The Trustees have established an investment policy designed to manage this risk, without damaging the Fund's long term return prospects. Their approach is set out in more detail in 2.4 and 2.5.

The Trustees recognise the following additional risks over the time horizon consistent with the Trustees' investment objectives and take the following steps to manage risk:

- Risks may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Recognising the need to diversify, investment exposure is obtained predominately via pooled vehicles, given the size of assets within any one mandate.

- Investment in foreign markets may introduce currency risk which is managed through the total allocation to these markets. The Trustees may also employ currency hedging.

- Investment in derivatives introduces specific risks that are additional to the risks presented from investing in the equivalent physical asset. These include:

    - basis risk (the risk that the index invested in does not match the index of the physical asset that the derivative has replaced);

    - roll risk (the risk that the terms available when the derivative is taken out are not available when the contract expires and is replaced);

    - recapitalisation risk (the risk that adverse price movements require payment of capital in order to maintain the position);

    - collateral and counterparty risk (the risk that the party with whom the Fund has contracted defaults and that any collateral is insufficient to make good any resulting loss);

- These risks are mitigated through the specific arrangements that are implemented so that the likelihood of the risks is low and/or the impact of them is low.

- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund.

- The Fund has invested in a bulk annuity policy whereby, in return for the payment of an insurance premium, an insurer assumes responsibility for a portion of the Fund's liabilities. The insurer is exposed to the underlying investment and longevity risk. The Fund is however subject to credit risk in relation to the solvency of the insurer. This risk is mitigated by extensive capital requirements enforced within the insurance regulatory environment. The Trustees have further mitigated this risk through careful choice of insurer and contract terms. The Trustees recognise that the investment in the bulk annuity contract is illiquid.

- Environmental, Social and Corporate Governance (ESG) issues, including climate change, may have a financially material impact on the return of the Fund's assets. The management of ESG related risks is delegated to investment managers, with oversight from the Trustees. Section 6 sets out the Trustees' policies in this regard.

- Arrangements are in place to monitor the Fund's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. The Trustees (via the FRIC) meet periodically with the Fund's active managers and receive regular reports from all the investment managers and Mercer.
- The safe custody of the Fund's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

The Trustees have considered this policy and these risks when setting the investment strategy set out in 2.5 and review the appropriateness of this strategy on a regular basis taking into account funding and covenant considerations. Should there be a material change in the Fund's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered, in particular whether the current risk profile remains appropriate.

2.4 Portfolio Construction

The Trustees have adopted the following principles within the investment manager arrangements, subject to the overriding constraint that at the total Fund level the expected level of risk does not exceed the Trustees' tolerance taking into account the employer covenant and subject to the Trust Deed & Rules:

- There is a role for both active and passive management. **Passive management** involves employing investment managers to deliver a return equal to a chosen benchmark appropriate to the asset class held. **Active management** involves employing investment managers who aim to outperform a benchmark but with a risk that they will underperform. By employing both the Trustees aim to take advantage of active management where they believe it is likely to lead to outperformance net of fees or superior absolute risk control, while using passive management in other areas or alongside active management to control overall manager risk and to manage overall fee levels.
- Choice of active managers will also take into account the Trustees' view on the absolute levels of return that the managers may be expected to generate (for example, whether they are likely to afford better protection in falling markets).
- Decisions on **segregated vs pooled** investments will be taken based on the particular circumstances, including the ability to achieve adequate diversification, available vehicle, investment restrictions contained in pooled funds, the need for and availability of an independent custodian, ease of administration and portability of underlying investments.
- **Specialist managers** are in general preferred over generalists because of the potential to access a higher level of expertise.
- At the total Fund level investments should be broadly **diversified** to ensure there is not a concentration of exposure to any one issuer, to the extent that this is not protected (e.g. by collateral). This restriction does not apply to investment in UK Government debt. Appropriate diversification between markets will also be ensured through asset allocation policy and choice of individual managers.
- The amount invested in highly **concentrated portfolios** will take into account the level of risk this represents taking into account the Fund's assets overall.
- The amount invested in **illiquid investments**, such as property, pooled property funds, unlisted investments or hedge funds, will take into account the

implications of not being able to readily liquidate a proportion of the Fund's investment in the operation of the Fund.

- Investment in **derivatives** is permitted directly or within pooled funds for risk reduction purposes or to facilitate efficient portfolio management.
- Investment may be made in securities that are not traded on **regulated markets**. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing risk or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Fund are predominantly invested on regulated markets.
- The Trustees will not invest directly in the **Fund sponsor** or associated companies, but acknowledge that indirect investment is possible as a result of the investment policies of the Fund's pooled investment managers. The Trustees will invest in such a way that indirect exposure will not exceed 5% of total assets.
- **Borrowing** is not permitted except to cover short term liquidity requirements.

2.5 Investment Strategy

The Trustees have put in place, based on written advice, an investment strategy that is consistent with the Trustees' funding and investment objectives. The investment strategy has the following overall key components:

- A liability "matching" portfolio composed of direct exposure to high quality corporate bonds, geared exposure to gilt and gilt type instruments ("LDI"), and cash, whose aim is to provide a pro rata match for a proportion of the Fund's liabilities measured in terms of sensitivity to changes in long term interest rate and inflation expectations. This portfolio also includes the Fund's bulk annuity policy.
- A diversified "return seeking" portfolio of assets whose aim is to deliver excess returns relative to a low risk approach including an equity call option strategy diversified by region, whose aim is to:
    - Provide additional upside exposure to developed equity markets
    - Limit downside losses to the value of the premium paid for the options at the outset
    - Free up capital compared with the capital that would be required to achieve the same market exposure through physical markets

The investment strategy summarised below represents the benchmark strategic asset allocation.

Asset Class	Target Allocation %
Matching	**71.5**
Investment Grade Credit	11.5
Gilts/LDI/Cash (including asset backed securities within collateral pool)	40.0
Buy-in	20.0
Return Seeking	**28.5**
Equities (Listed)	3.5
Low Volatility Equity	5.0
Multi-Asset Credit	10.0
Equity Call Option	5.0^
Property	5.0
Total	**100.0**

^actual exposure will be determined based on the amount necessary in order to achieve a level of notional exposure that is consistent with overall risk and return targets

The Fund has a target liability hedge ratio of 85% of liabilities on a gilts + 0.5% p.a. basis. This target liability hedge ratio is expressed and maintained by the liability hedging manager based on the invested assets and uninsured liabilities only, i.e., excluding the impact of the bulk annuity policy. The overall liability hedge level is expected to be higher than this once the bulk annuity policy is allowed for, but as this portfolio is valued typically annually, it is excluded from the target for practical purposes in order to ensure that the target level can be implemented effectively by the liability hedging manager.

Actual percentage allocations may vary over time particularly in response to market movements and will be monitored relative to the strategic asset allocation.

The Trustees use a one year one-in-twenty Value at Risk measure when considering investment strategy.

2.6 Expected Return

The return earned on the Fund's investments is dependent on the markets in which the Fund invests and the proportions held in them and the ability of the fund managers to generate a higher return. Of prime importance is the level of return relative to the return that can be obtained from investing in a portfolio of gilts structured to meet the Fund's liabilities.

The Trustees are confident that the excess return above gilts expected to be achieved on the Fund's assets is in excess of the return assumed in determining the Fund's technical provisions, which is reducing towards gilts + 0.5% p.a. They are also aware that this does not guarantee that this return will be achieved in practice, particularly in the short term.

2.7 Selection, Retention and Realisation of Investments

The Trustees have implemented a policy to manage the Fund's net cash in/out flow within the defined benefit section, details of which are contained in the following sections. The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Fund's overall strategic allocation and consistent with the overall principles set out in this Statement. Segregated investment managers have discretion over the realisation of investments to meet cash calls, and in considerations relating to the liquidity of those investments subject to the relevant appointment documentation. The liquidity of pooled funds and realisation of cash from pooled funds is subject to the relevant managers' prospectuses and dealing dates.

In addition the Trustees monitor the allocation between the appointed managers and between asset classes and will rebalance if necessary (or may delegate this to individual investment managers).

2.8 Day-to-Day Management of the Assets

The Trustees have agreed to delegate the day-to-day management of the invested assets of the Defined Benefit section (excluding the bulk annuity policy and additional voluntary contribution (AVC) assets) to the following investment managers:

- Arrowgrass Capital Partners LLP ("Arrowgrass"): multi-strategy hedge fund (temporary holding expected to be fully realised by 2022;
- Baillie Gifford & Company Limited ("Baillie Gifford"): active global equities;
- Veritas Asset Management LLP ("Veritas"): active low volatility global equities;
- BlueBay Asset Management LLP ("BlueBay"): multi-asset credit fund;
- Legal & General Investment Management Limited ("L&G"): – investment grade credit;
- Insight Investment Management (Global) Limited ("Insight"): liability driven investments ("LDI") including collateral , equity call options and cash (liquidity);
- Mackay Shields UK LLP ("Mackay Shields"): multi-asset credit fund;
- Aberdeen Standard Investments ("Aberdeen Standard"): HLV property;
- Columbia Threadneedle Investments ("Columbia Threadneedle"): UK property.

The managers will, through the monthly assessment of asset allocation, be subject to periodic monitoring of their allocations. If allocations are outside a specific tolerance the Trustees will consider whether to take action, recognising the practical limitations of taking action on illiquid assets.

2.9 Investment/Disinvestment Policy

Disinvestments will be sourced from Insight in their capacity as LDI manager unless otherwise decided after taking advice. In particular disinvestments may be taken from other asset classes in order to ensure the Fund's actual asset allocation remains close to target.

Investments will be made depending on advice required taking into account actual allocations relative to target allocations.

3. Defined Contribution Section

3.1 Process For Choosing Investments

The Trustees have considered the characteristics of a range of members and their associated investment needs when choosing which types of investment to make available. The range of funds offered include those which offer the prospect of growth which exceeds the rate of inflation in the long term ("growth funds"), as well as funds that provide greater protection against changes in the cost of securing retirement benefits or volatile nominal market values ("defensive funds").

The Trustees take into account what they believe to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance ("ESG") issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Fund. Specific considerations are detailed throughout this Statement.

3.2 Investment Objectives

The Trustees' principal objective is to offer members reasonable choice over how contributions are invested on their behalf so that they can tailor their choice to suit their own objectives and personal circumstances. Specifically, the Trustees have chosen a range of funds designed to enable members to achieve the following individual investment objectives:

- Positive long-term real rates of return
- Increasing protection for members' accumulated assets in the years approaching retirement against:
  a. Sudden (downward) volatility in the capital value;
  b. Fluctuations in the cost of taking retirement benefits in the member's chosen form.

The Trustees also provide members with a default investment option for those who do not wish to implement their own investment strategy.

3.3 Risk Management and Measurement

The Trustees have considered risk from a number of perspectives over the Fund's anticipated lifetime. The Trustees believe that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to take their benefits from the Fund.

In considering the range of funds to offer to members, the Trustees acknowledge that the investment time horizon of each individual member is different and will be dependent on their current age and when they expect to retire.

In designing the target date fund strategies, the Trustees have taken the proximity to the target retirement date into account, and the associated financially material risks over the time horizon of these strategies.

The Trustees recognise the following risks in relation to the DC section and take the following steps to manage them:

- **Market risk –** the risk that the markets in which the funds invest perform poorly such that the investment objectives are not met. This risk includes inflation, currency, credit and other price risks.

  The Trustees manage this risk principally through offering members sufficient choice of investment vehicles, across the risk and return spectrum, to manage their own risks. The Trustees carry out periodic reviews of the overall range of funds with the assistance of their investment consultant and conduct regular assessment of the performance and performance prospects of each fund relative to its performance target.

- **Manager risk –** the risk that the individual fund managers perform poorly relative to the markets in which they invest, or their performance prospects deteriorate leading to the need to select a new fund manager.

  The Trustees manage this risk in certain instances through offering passive investment management. This approach is expected to produce a return that is very close to the relevant market, whereas active management is expected to perform better than the relevant benchmark but may perform worse. For all funds, the Trustees assess the performance and performance prospects of their fund managers, relative to relevant market benchmarks and / or each fund's objectives, on a regular basis (via the FRIC) both in terms of performance and performance volatility, with the assistance of their investment consultant.

- **Liquidity risk –** the risk that members will be unable to sell investments in a timely manner.

  To mitigate this risk, the Fund invests in daily dealt and daily priced pooled funds.

- **Environmental, Social and Corporate Governance (ESG) risk** – the risk that ESG concerns, including climate change, have a financially material impact on the return of the Fund's assets.

  The management of ESG related risks is delegated to investment managers, with oversight from the Trustees. See Section 6 for our policies in this regard.

- **Default mismatch risk** - the risk that the investment profile of the default investment option is unsuitable for the requirements of some members. Further details regarding this risk and its management are provided in Section 3.6.

3.4 Portfolio Construction

The Trustees have adopted the following principles:

- Decisions over how much to allocate to individual fund options are the responsibility of DC Section members. However, the Trustees also offer a default investment option via target date funds, along with further target date fund choices targeting different retirement benefits. These funds make **automatic asset allocation changes** depending on the period to selected retirement age.

- The Trustees have typically decided to offer **passively managed funds.** In certain instances elements of active management are employed; for example, in asset allocation within multi-asset funds. By employing active management, the Trustees aim to take advantage of active management where they believe it is likely to lead to outperformance net of fees or superior absolute risk control. By also employing passive management in certain asset classes or alongside active management in a single fund, the aim is to seek to control overall manager risk and to manage overall fee levels.

3.5 Investment Strategy

Each member is free to choose their own investment strategy in accordance with their individual objectives, through appropriate selection of the funds made available by the Trustees for the investment of contributions.

The Trustees also offer a default investment option**.** Details are provided in the following Section.

3.6 Default Investment Option

Objectives

The aims of the default investment option, and the ways in which the Trustees seek to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

  The default investment option’s growth phase invests in a Growth Fund which consists of equities and other growth-seeking assets. These investments are expected to provide equity-like growth over the long term with some downside protection and some protection against inflation erosion.

- To provide a strategy that reduces investment risk for members as they approach retirement.

  As a member’s pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. Hence, eight years before their target retirement date (or normal retirement date, if no target is specified), members in the default investment option will have their holdings transferred into a target date fund (“Target Drawdown Retirement 20XY Fund”, based on the expected date of retirement in year 20XY). These target date funds aim to gradually move investments from higher-risk growth-seeking assets to assets designed to target flexible withdrawal of benefits.

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take 25% cash at retirement (reflecting current tax free cash rules) and to use the balance to transfer to an income drawdown arrangement and withdraw their benefits over time.

  By the start of the year of their expected retirement, members’ accumulated savings in the default investment option will be moved to the Target Drawdown Retirement Fund, which aims to broadly match these benefits through investment of 25% of the portfolio in a mix of high quality short-term sterling denominated money market instruments and 75% in a Diversified Retirement Fund, which aims to generate income and maintain the purchasing power of members’ savings until they retire from the Fund. The assets in this multi-asset fund include equities, bonds and alternative assets.

Policies in relation to the default option

- The default option manages investment and other risks throughout a member's working lifetime via a strategic asset allocation consisting of equities, alternative asset classes, fixed income assets and cash. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns.
- Assets in the default option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used within the Defined Contribution Section and the default option operate daily dealing cycles.
- Assets are invested mainly on regulated markets.
- The investment manager also has discretion to incorporate environmental, social and governance considerations in exercising their delegated responsibilities. The growth phase of the default investment strategy includes an allocation to sustainable global equities, which was incorporated in the strategy following climate risk scenario modelling. The Trustees have in place policies in relation to responsible investment which apply across the Fund. These policies are detailed in Section 6 of this Statement.

Based on the Trustees' understanding of the Defined Contribution Section's membership, an investment strategy that targets an income drawdown-focused asset allocation at retirement is considered to be broadly appropriate to meet a typical member's requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement - it merely determines the investment strategy that will be in place pre-retirement.

Members (for example, who intend to take their retirement savings through other formats) have the option of choosing their own investment strategy.

The Trustees will continue to review the default investment option, and more strategically at least triennially, or after significant changes to the membership demographic, if sooner.

The Trustees review investment performance and risk on a quarterly basis, and take professional advice as appropriate.

The Trustees believe that this strategy meets the investment objective outlined in this Statement and controls the risks identified in earlier paragraphs.

3.7 Expected Return

The Trustees offer members a range of funds with different expected risk and return levels, in order to allow individuals to tailor their choices to suit their own objectives and personal circumstances. Expectations for the default investment option are detailed in Section 3.6.

3.8 Day-to-Day Management of the Assets

The Trustees have chosen Aviva as their provider of investment management and administration services. As such all investment funds under the Defined Contribution

Section are accessed via Aviva. The Trustees wish to give members a reasonable degree of freedom over the investment policy of their accounts. Consequently the following funds[2] have been made available to members:

Equity funds

- BlackRock Aquila Connect (50:50) Global Equity Index
- BlackRock Aquila Connect UK Equity Index
- BlackRock Aquila Connect World ex UK Index Equity
- BlackRock Emerging Markets Equity (Aquila C)

Multi-asset funds

- Mercer Diversified Growth
- Mercer Growth / Balanced Risk

Bond funds

- BlackRock Aquila Connect Over 15 Year Gilt Index
- BlackRock Aquila Connect Over 5 Year Index-Linked Gilt Index
- BlackRock Aquila Connect Corporate Bond All Stocks Index

Cash fund

- BlackRock Institutional Sterling Liquidity

In addition to the above funds, a series of target date funds are available to members. These funds target different retirement benefit outcomes and are available in “vintages” by retirement year, as noted in the following list:

- Mercer Target Annuity Retirement 20XY (based on the expected date of retirement in year 20XY).
- Mercer Target Cash Retirement 20XY (based on the expected date of retirement in year 20XY).
- Mercer Target Drawdown Retirement 20XY (based on the expected date of retirement in year 20XY).

Eight such years are available at any one time, representing vintages in the coming eight years.

At the end of the target date cycle, when a member reaches the year of their selected retirement, an “undated” fund variant of each of the three strategies is used to provide members with their “final” asset allocation.

[2] All fund names are preceded by “Av MyM” in member literature and on the Aviva platform (referring to “Aviva MyMoney”).

4. Investment Manager Arrangements

Overview

The Trustees delegate the day to day management of the assets to a number of investment managers as detailed in earlier sections of this statement.

The Fund's investment managers are appointed based on their capabilities and suitability as regards meeting the Fund's objectives. Their appointments are therefore also based on their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustees receive advice from its investment consultant in relation to forward-looking assessments of a manager's ability to outperform over a full market cycle, for mandates where outperformance is the objective. This view will be based on the investment consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment portfolio(s) that the Fund invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

For passively managed mandates, or those where outperformance is not the primary goal, the Trustees will seek guidance from the investment consultant in relation to their forward looking assessment of the manager's ability to achieve the stated mandate objectives.

If the investment objective for a particular investment manager's fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

Some appointments are actively managed and the managers are incentivised through performance targets. An appointment will be reviewed following periods of sustained underperformance or failure to meet the mandate objectives, and the Trustees have put in place quarterly monitoring to seek to manage this risk. The Trustees will review the appropriateness of using actively managed funds (on an asset class basis) periodically.

Some appointments are managed on a segregated basis: the Trustees have specified criteria in the investment manager agreements for the respective manager to be in line with the Trustees' specific investment requirements.

As the Trustees invest in pooled vehicles it is accepted that there is no ability to specify the risk profile and return targets of the manager. However, appropriate mandates are selected to align with the overall investment strategy as documented in this Statement.

Investment Manager Remuneration

The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management. For liability hedging a fee is calculated based on the percentage of liabilities hedged. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee.

The Trustees review periodically fee transparency and total expense ratio charges in respect of the Defined Benefit Section.

As part of the annual Defined Contribution Value for Money assessment, the Trustees review the fees within the Fund's Defined Contribution arrangements.

Investment managers are not remunerated based on portfolio turnover.

Evaluating Investment Managers

Investment managers are aware that their continued appointment is based on their success in delivering the objectives of the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, they will look to replace the manager.

The Trustees meet with the investment managers as deemed appropriate. During such meetings the Trustees are able to review the decisions made by the managers, including investment decisions, voting history (in respect of equities) and engagement activity with investee companies, and can question such activities.

The Trustees consider the investment consultant's investment research and ESG research ratings within quarterly reporting. Through these ratings, the Trustees can assess for example how each investment manager embeds ESG into its investment process and how each manager's investment philosophy aligns with the Trustees' policies.

In respect of the Defined Contribution Section, where equity funds are held, equity managers registered with the appropriate regulator are expected to report on their adherence to the UK Stewardship Code on an annual basis. For funds managed on a delegated basis by Mercer, a review of the appointed investment managers against the UK Stewardship Code is undertaken annually and reported to the Trustees.

Time horizon and Duration of Appointments

The Trustees receive investment manager performance reports for both the Defined Benefit and the Defined Contribution Sections of the Fund on a quarterly basis, which present performance information over 3 months, 1 year and 3 year periods. The Trustees review the performance of the investments on an absolute basis and relative to defined benchmarks (over the relevant period) on a net of fees basis. The focus is long-term performance but the Trustees will put a manager "on watch" if there are short-term performance concerns.

If a manager is not meeting its performance objectives, over a sustained period of time, and after consideration of all relevant factors, the Trustees may take the decision to terminate the appointment.

The Trustees are long-term investors. Accordingly, the Trustees do not seek to change the investment arrangements on a frequent basis.

The Fund's investments in equity call options have a fixed term, and the ongoing suitability of these holdings are reviewed in line with their fixed term cycle. The other investments are in open-ended fund structures with no set end date for the arrangement.

The Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager; or

- The manager appointment has been reviewed and the Trustees have decided to terminate the appointment.

Portfolio turnover costs

The Trustees do not actively monitor portfolio turnover costs in respect of the Defined Benefit Section and has not set portfolio turnover targets; rather the Trustees assess performance net of the impact of the costs of such activities.

For the Defined Contribution Section, transaction costs, which include portfolio turnover costs, are monitored and assessed within the annual Value for Money assessment. The Trustees have not set portfolio turnover targets; again the Trustees instead assess investment performance net of the impact of the costs of such activities.

5. Additional Voluntary Contributions (AVCs)

Members of the Fund have the opportunity to pay AVCs, which are invested and used to increase pension benefits at retirement, or in the event of death. The Trustees establish the arrangements under which these contributions are invested.

The Trustees have a legacy policy with Prudential, a provider of investment management and administration services. The Prudential arrangements were offered to Defined Benefit Section members only. 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). The legacy range of funds available through the Prudential policy are as follows:

- Prudential Cash Accumulation With-Profits Fund
- Prudential Discretionary Fund
- Prudential UK Equity Passive Fund
- Prudential Retirement Protection Fund
- Prudential Deposit Fund

For members of the Defined Contribution Section, AVCs can be invested in the fund range available through Aviva as detailed earlier in this statement. The Defined Benefit Section of the Fund is closed to further accrual of benefits.

6. Environmental, social and governance (ESG) considerations

The Trustees believe that ESG issues may have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustees accordingly consider these issues in the context of the anticipated time horizon over which the assets will be held.

The Trustees do not directly manage the Fund's investments, and the investment managers have full discretion to buy and sell investments within the various portfolios, within the guidelines of their mandates. ESG considerations are however taken into account in the selection, retention and realisation of investments in the following ways:

- The Trustees consider the ESG research ratings published by our investment advisers, Mercer, when monitoring the Fund's investment managers' capabilities. These ratings are also considered as part of any new selection of investment funds.
- In meetings with the Fund's investment managers, where relevant, ESG issues are discussed and the manager is expected to discuss voting and engagement activities carried out on behalf of the Trustees for mandates where this is appropriate.
- Whilst members' views are not currently explicitly taken into account in the selection, retention and realisation of investments, the Trustees welcome views from members. Members have a variety of methods by which they can make views known to the Trustees. This position is reviewed periodically.

Specific policies in relation to Defined Benefit and Defined Contribution Sections are set out below.

Defined Benefit Section

The Trustees have given the investment managers full discretion when evaluating ESG issues, including climate change considerations. In addition, they have delegated to them engagement with companies and exercising voting rights and stewardship obligations relating to the Fund's investments taking account their own corporate governance policies and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustees encourage their managers who are regulated in the UK to comply with the UK Stewardship Code.

The Trustees consider, amongst other factors, how ESG, climate change and stewardship is integrated within investment processes in appointing, monitoring, retaining and withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered.

In the case of active managers, where the manager believes that these issues will impact on performance or risk, the manager will be expected to take them into account in their decision making, consistent with the long term financial best interest of the Fund.

Defined Contribution Section

The Trustees have delegated day to day management of the majority (though not all) of the assets of the Defined Contribution Section to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying investment managers.

Mercer has in place a Sustainable Investment Policy which the Trustees have considered and adopted as part of the delegation of investment management. This Policy encompasses:

- A commitment to appoint only underlying investment strategies at or above an agreed ESG ratings level.
- Taking a broader and longer-term perspective on risk, including identifying sustainability themes and trends for risk management and new opportunity allocations within the funds, where appropriate within the risk / return and asset allocation guidelines of the relevant funds.
- Recognition that climate change is a systemic risk given the transition to a low-carbon economy and the potential physical impact risks; actions in this respect will be taken in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
- Stewardship monitoring on investment manager voting and engagement activity, and monitoring of adherence to the UK Stewardship Code.
- Controversial and nuclear weapons have been excluded from Mercer fund solutions.

For the Defined Contribution investments, including funds where management is not delegated to Mercer, the underlying investment managers are expected to evaluate ESG factors (including climate change considerations) where practical within the terms of their mandate and to exercise voting rights and stewardship obligations attached to the investments in accordance with their own corporate governance policies and current best practice (including the UK Corporate Governance Code and UK Stewardship Code).

For delegated investment funds, Mercer is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progresses, stewardship monitoring results, and climate-related metrics such as carbon footprinting for equities and/or climate scenario analysis for diversified portfolios.

7. Non-Financial Matters

Members views on “non-financial matters” (where non-financial matters” includes members’ ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustees would review this policy in response to significant member demand.

8. Advisors and Other Relevant Parties

8.1 Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers. The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. Custody of Insight assets is provided by JP Morgan.

8.2 Actuary

The actuary performs a valuation of the Fund at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree the employer's contribution rate.

Gareth Connolly of Willis Towers Watson is the appointed Fund Actuary.

8.3 Investment Consultant

Defined Benefit Section

Whilst the day-to-day management of the Fund's assets is delegated to investment managers, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers is taken by the Trustees after taking advice. Mercer is the appointed investment consultant.

Defined Contribution Section

The Trustee is responsible for strategic investment decisions including the choice of default investment strategy and the selection of funds to be made available to members. Ongoing management of the strategic asset allocation of the default strategy, and selection of the underlying investment managers for funds made available through Mercer Workplace Savings (MWS) is carried out by Mercer. Monitoring of the arrangements is undertaken by the Trustees after taking advice. Mercer is the appointed investment consultant.

8.4 Covenant Advisor

The Trustees recognise the importance of taking decisions on investment in the light of both funding considerations and sponsor covenant strength. To assist the Trustees with their assessment of covenant they have appointed an independent specialist, Lincoln Pensions.

8.5 Performance Measurement

Mercer provide ongoing analysis of the Fund and manager performance.

9. Compliance and Review of this Statement

The Trustees will monitor compliance with this Statement annually and will monitor compliance by investment managers to the investment principles in this Statement where relevant so far as reasonably practicable, and whether in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

For and on behalf of the Trustee of the Kellogg's (Great Britain) Pension Fund