

## Cadbury Mondelez Pension Fund

### Statement of Investment Principles

#### Investment objective

The Trustee invest the assets of the Fund with the aim of ensuring that all members' accrued benefits can be paid. The Fund's funding target is specified in the Statement of Funding Principles, and the Fund's funding position will be reviewed annually to assess the position relative to the funding target and whether the investment policy remains appropriate to the Fund's circumstances.

The Fund's present investment objective is to achieve a return of around 2.2% per annum above the return on UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Fund liabilities).

#### Governance

The Trustee of the Fund is responsible for the overall investment strategy of the Fund, but has delegated the implementation of the strategy, and the day to day governance to the Investment Committee ("IC") which is referred to in the IC Terms of Reference. The IC and the investment advisor (Isio) annually update the Trustee on the investment strategy and confirm the terms of the Terms of Reference and the provisions therein.

#### Investment strategy

The Fund's present strategy is to invest according to the following broad asset allocation:

<b>Asset Class</b>	<b>Proportion %</b>	<b>Expected Return (relative to liability matching gilts)* %</b>
Equities	19	4.0
Property	5	2.5
Illiquid Credit	10	4.0
Liquid Credit	8	3.0
Matching Credit	19	1.3
LDI Strategy and Buy-ins	38	0.0
<b>TOTAL</b>	<b>100</b>	<b>2.2</b>

\*Based on Isio Investment Advisory long term asset class assumptions as at 30 June 2020.

Note: The total proportion may not sum to 100% due to rounding. The total return of 2.2% p.a. quoted above will not sum to the weighted return of the individual asset classes. The total return is calculated by accounting for the correlations between the individual asset classes and the diversification benefit when the return is calculated across the portfolio.

Where the Fund has appointed "active" fund managers, their objective is to outperform the market average. Short-term returns in some asset classes may exhibit considerable variability.

The Fund has two partial buy-ins of pensioner liabilities whereby a portion of the assets are held by an insurance provider with the objective of providing a match to the corresponding pensioner liabilities.

The insurance policies are held as an investment by the Trustee and provides returns that are expected to be in line with the benefits insured under the policy. The insurance policies are held as matching assets which hedges the investment, inflation and mortality risks for those lives insured under the policies.

The above investment strategy was derived from careful consideration of the nature and duration of the Fund's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of contributions required to fund the Fund, and also the strength of the sponsor's covenant. The Trustee considered the merits of a range of asset classes when deciding on the overall strategy.

The Trustee recognises that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

Details of how risks and financially material considerations have been addressed and managed by the Trustee are outlined in Appendix A.

### Investment Manager Arrangements

The Trustee has appointed several investment managers to manage the assets of the Scheme as listed in the IIP. The investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee take investment managers' policies into account when selecting and monitoring managers. The Trustee also take into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

The Trustees have appointed a custodian to operate alongside the investment managers in place. The custodian provides safekeeping for the assets, and performs all associated administrative duties such as the collection of dividends. Where the Fund's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager.

### Investment Manager Monitoring and Engagement

The Trustee has delegated to the IC the task of monitoring and engaging with the Fund's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the IC seek to engage on these matters with investment managers.

<b>Areas for engagement</b>	<b>Method for monitoring and engagement</b>	<b>Circumstances for additional monitoring and engagement</b>
Performance, Strategy and Risk	<ul style="list-style-type: none"><li>• The IC receive a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Investment Committee meeting.</li><li>• The Fund's investment managers are invited, in person, to present to the IC on their performance, strategy and risk exposures.</li></ul>	<ul style="list-style-type: none"><li>• There are significant changes made to the investment strategy or the overall objective of the assets.</li><li>• The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations.</li><li>• Underperformance vs the performance objective over the period that this objective applies.</li></ul>
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none"><li>• The IC's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li><li>• The IC receive information from their investment advisers on the investment managers' approaches to engagement.</li></ul>	<ul style="list-style-type: none"><li>• The manager has not acted in accordance with their policies and frameworks.</li><li>• The manager's policies are not in line with the Trustee's policies in this area.</li></ul>

Through the engagement described above, the IC will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

### Financial Material Considerations and Stewardship Policy

The Trustee has considered all financially material considerations over the appropriate time horizon of the investments. This includes how those considerations are taken into account in the selection, retention and realisation of investments. The Trustee has decided that there are no non-financial matters which fund managers need to be instructed to take into account in the selection, retention and realisation of investments.

The Trustee has also considered how to exercise the rights (including voting rights) attaching to the investments, and how to undertake engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee would monitor and engage with relevant persons about relevant matters), i.e. stewardship.

All decisions about the day-to-day management of the assets, including the above considerations, have been delegated to the investment managers via a written agreement. The IC takes investment managers' policies in the above respects into account when selecting and monitoring managers. The investment managers are expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

#### Employer-related investments

The Trustee's policy is not to hold any employer-related investments (including the ultimate holding company, Mondelez International Inc.) as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Fund's value.

#### Direct investments

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to a fund manager through a written contract. These include the pooled vehicles available for members' AVCs/DC contributions through arrangements with Legal & General Investment Management. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

#### Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring employer and took appropriate written advice. The Statement is reviewed at least every three years, and after any significant change in investment policy.

#### Defined Contribution Statement of Investment Principles

The Trustee is required to have specific policies in relation to the default that supports the design of the default option as per Regulation 2 (3). These are set out in a separate "Statement of Investment Principles in relation to the Default". The Trustee will update the document as part of any strategic changes to the default or policies that are agreed with reference to it.

Date: 26/08/2020

Signed: 

## Appendix A – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee have considered and sought to manage is shown below.

The Trustee adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

<b>Risks</b>	<b>Definition</b>	<b>Policy</b>
Investment	The risk that the Fund's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"><li>• Selecting an investment objective that is achievable and is consistent with the Fund's funding basis and the sponsoring company's covenant strength.</li><li>• Investing in a diversified portfolio of assets.</li></ul>
Funding	The extent to which there are insufficient Fund assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"><li>• Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li><li>• The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.</li></ul>
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Fund.	<ul style="list-style-type: none"><li>• When developing the Fund's investment and funding objectives, the Trustee take account of the strength of the covenant ensuring the level of risk the Fund is exposed to is at an appropriate level for the covenant to support.</li></ul>

The Fund is exposed to a number of underlying risks relating to the Fund's investment strategy, these are summarised below:

<b>Risk</b>	<b>Definition</b>	<b>Policy</b>
Interest rates and inflation	The risk of mismatch between the value of the Fund assets and present value of liabilities from changes in interest rates and inflation expectations.	<ul style="list-style-type: none"><li>• To hedge 79% of these risks measured on a gilts flat basis.</li></ul>
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	<ul style="list-style-type: none"><li>• To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.</li></ul>

Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	<ul style="list-style-type: none"> <li>To remain appropriately diversified and hedge away any unrewarded risks, where practicable.</li> </ul>
Credit	Default on payments due as part of a financial security contract.	<ul style="list-style-type: none"> <li>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</li> <li>To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Fund for the risk of default.</li> </ul>
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Fund's investments.	<ul style="list-style-type: none"> <li>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: <ol style="list-style-type: none"> <li>Responsible Investment ('RI') Policy / Framework</li> <li>Implemented via Investment Process</li> <li>A track record of using engagement and any voting rights to manage ESG factors</li> <li>ESG specific reporting</li> <li>UN PRI Signatory</li> </ol> </li> <li>The Trustee monitor the managers on an ongoing basis.</li> </ul>
Currency	The potential for adverse currency movements to have an impact on the Fund's investments.	<ul style="list-style-type: none"> <li>Hedge all currency risk on all assets that deliver a return through contractual income.</li> <li>Hedge 75% of USD, EUR and JPY currency risk on equities.</li> </ul>
Non-financial	Any factor that is not expected to have a financial impact on the Fund's investments.	<ul style="list-style-type: none"> <li>Non-financial matters are not taken into account in the selection, retention or realisation of investments.</li> </ul>

## Appendix B

The Trustee have the following policies in relation to the investment management arrangements for the Fund, and have delegated responsibility for implementing these policies to the IC:

<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee policies.</p>	<ul style="list-style-type: none"><li>• The Trustee has segregated arrangements with most investment managers, thereby allowing investment managers to align their strategy with the Trustee policies. This is reviewed on an ongoing basis.</li><li>• The Fund's mandate for Partners Group Illiquid Credit is subject to a performance related fee.</li></ul>
<p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p>	<ul style="list-style-type: none"><li>• The IC reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.</li><li>• The Trustee or IC do not incentivise the investment managers to make decisions based on non-financial performance.</li></ul>
<p>How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee policies.</p>	<ul style="list-style-type: none"><li>• The IC reviews the performance of all of the Fund's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.</li><li>• The IC evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.</li></ul>
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"><li>• The Trustee or IC do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.</li></ul>
<p>The duration of the Fund's arrangements with the investment managers</p>	<ul style="list-style-type: none"><li>• The duration of the arrangements is considered in the context of the type of fund the Fund invests in.<ul style="list-style-type: none"><li>○ For closed ended funds or funds with a lock-in period the Trustee ensure the timeframe of the investment or lock-in is in line with the Trustee objectives and Fund's liquidity requirements.</li><li>○ For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.</li></ul></li></ul>

