

## **Annual Governance Statement for the year to 5 April 2019**

Prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the “Regulations”)

### Introduction

I am pleased to present the Chairman’s statement in relation to the defined contribution arrangements of the Cadbury Mondelez Pension Fund (the “Fund”) covering the scheme year to 5 April 2019.

The Fund is a hybrid pension scheme which is closed to new joiners. It provides defined benefits (DB) for the majority of members and incorporates DC arrangements for certain members of the MRBP Section, including the Top Up Plan and Terry’s Individual Pension Accounts (IPAs). The Fund’s DC arrangements also include policies in respect of members who have made, or are making, additional voluntary contributions (AVCs) and members who have transferred benefits into the Fund from other registered pension arrangements.

### Default investment arrangement

A copy of the Fund’s DC Statement of Investment Principles (SIP), dated 12 August 2019, which was prepared in accordance with regulation 2A and 2B of the Occupational Pension Schemes (Investment) Regulations 2005, is appended to this statement. The Trustee reviewed the default arrangement during 2018.

A default investment arrangement is provided for members in the Top Up Plan. The Trustee has designated a lifestyle strategy as the default arrangement, targeting annuity purchase at retirement with allowance for maximum tax-free cash. The strategy aims to provide long term capital growth for member funds with a reduction in investment risk as members approach retirement. The default strategy is based on the Trustee’s understanding of the member profile of the Top Up Plan and how the Trustee expects members to take their benefits at retirement.

During the year to 5 April 2019, the default invested 100% in UK and overseas equities until 10 years before a member’s selected retirement age. During the 10 years to retirement, funds are gradually switched so that at the member’s selected retirement age 75% is invested in a mix of fixed interest and index-linked gilts and 25% is invested in cash.

Following the review of the default arrangement, some changes were agreed in order to reduce risk, by increasing global diversification and currency hedging during the growth phase. These changes were implemented on 22 March 2019, having been delayed due to negotiations over charges. The suitability of the default investment strategy for the Top Up Plan was reviewed prior to implementation, and the Trustee concluded that the strategy remains suitable for members in the Top Up Plan.

The DC provider for the default arrangement (State Street) reports on performance on a quarterly basis, including performance against benchmark. The Trustee reviews performance on a regular basis (at least annually) to ensure that this is consistent with the aims and objectives of the default arrangement.

The IPAs are notional DC funds which increase in line with returns set by the Scheme Actuary with a view to matching Bank of England base interest rates, therefore there is no default investment strategy.

The AVCs and transferred in funds do not have a default as members are required to make their own decisions with regard to where these are invested. Prior to the merger of the Cadbury Pension Fund and the Mondelez UK Retirement Benefits Plan, the MRBP Trustee undertook

a review of its DC arrangements in December 2015 with the assistance of its adviser. The CPF Trustee undertook a review of its DC arrangements in 2014, with the assistance of its adviser, which resulted in a number of members' funds being transferred from Equitable Life and BlackRock to L&G and the charges applicable to L&G were negotiated down.

### Core financial transactions

Core financial transactions are undertaken on behalf of the Trustee by the in-house Pension Team at Bournville. The Fund investment platform providers (State Street, Legal & General, Equitable and Zurich) also undertake certain administrative duties.

The Trustee has a service level agreement in place with the Pension Team and the various providers. These agreements cover the accuracy and timeliness of the core financial transactions.

The pensions team is responsible for maintaining accurate data in respect of members of the Fund and the Trustee reviews the quality of the administration services on an annual basis. The Trustee has reviewed the processes and controls used by the in-house Pension Team and consider them to be suitable and likely to meet the required levels. Human resources, payroll and pensions teams maintain a close working relationship to ensure that instructions are processed in a timely and accurate manner. Contributions are monitored by the finance members of the Pension Team and processes are in place for the review and authorisation of all financial transactions, which is further considered as part of the annual financial audit of the Fund. Controls around administration and the processing of transactions are also documented in the Fund risk register which is regularly reviewed.

The Trustee receives quarterly reports from the Pensions Team on its performance against service level agreements (SLAs). Since 1 November 2017 these reports show AVC tasks separately and to date over 97% of AVC tasks have been completed within 10 days. L&G provides quarterly reports on their performance against their own SLAs for the Fund. Performance against SLAs has also been provided in respect of the underlying funds in the Top Up Plan and for Equitable Life, although these are only provided annually on request and are not Fund specific.

There were no administration issues during the year.

The Trustee has reviewed the information provided to it from the pensions team and DC providers and believes the requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately during the scheme year to 5 April 2019.

### Member borne charges and transaction costs

DC charges usually comprise the following:

- Annual Management Charge (AMC) – an express explicit charge which is usually a fixed annual level
- Total Expense Ratios (TERs) - include annual management charges, investment management charges and any additional expenses disclosed by the fund manager.
- Transaction costs - the costs borne by the fund which are incurred in the management of the investment, such as the cost of buying and selling assets, which are not included in the above. These costs are not explicitly deducted from members' funds, instead fund performance figures are expressed net of the effect of these costs. It is possible for these to be negative depending on how providers price units.

The requirement for fund managers to calculate and disclose transaction costs using a method prescribed by the Financial Conduct Authority was introduced on 3 January 2018. Fund managers calculate transaction costs at fund-level not scheme-level therefore the Trustee requested details of transaction costs for the period 6 April 2018 to 5 April 2019 from the Fund's providers.

#### **The Top Up Plan:**

The AMCs for the underlying funds during this period were between 0.049% p.a. and 0.091% p.a. The charges included in the AMC for the Top Up Plan are met by the Company, meaning that the member borne deductions for management on the default are zero.

The TER for the Top Up Plan is an implicit charge not explicitly deducted from members' funds, instead fund performance figures are expressed net of the effect of these costs. The default arrangement for the Top Up Plan levied a TER of less than the level of the Charge Cap, which is 0.75% p.a., during the period 15 November 2018 to 5 April 2019.

The TER members paid during this period was between 0.008% p.a. and 0.105% p.a. depending on where they fell in the default lifestyle strategy (term to retirement).

The actual transactions costs members paid during this period was between 0.015% p.a. and 0.04% p.a, depending on where they fell in the default lifestyle strategy (term to retirement).

These costs (TERs and transaction costs) were passed to members since they reduce the net performance of the respective funds.

#### **Terry's IPA:**

For the IPAs, the total cost of providing the benefit is met by the company. As the DC fund is notional, there are no charges deducted from members' funds.

#### **AVCs and transferred-in funds:**

For AVC and transferred in funds, the charges we have currently received from providers are as follows:

- L&G – TERs were 0.29% p.a. L&G were unable to provide transaction costs at the year-end date. However, the transaction costs for the previous year ranged from 0% to -0.06% which provided a net gain to fund performance. L&G have advised that the updated transaction costs information is expected to be available during Q3 2019.
- Zurich – TERs on the unit linked funds ranged from 0.97% to 1.00% p.a. The with profits fund is subject to a TER of 0.99%. Zurich has advised that the funds are not

subject to within funds transaction costs. These funds have now been transferred to L&G.

- Equitable Life – TERs on the unit linked funds were 0.75% p.a. The with-profits fund deducts charges from bonuses before they are declared, the charges are currently 1% p.a. with an additional 0.5% for the cost of providing guarantees on the contract. The transaction costs at 31 March 2019 were 0.036% for the with-profits fund and 0.019% for the Managed Fund.

As at 5 April 2019, less than 3% of the funds held in the DC arrangements were subject to charges in excess of the 0.75% pa charge cap on default funds, none of which were in respect of default funds.

A full listing of the TERs and transactions costs is included in Appendix 1.

### **Illustration of the cumulative impact over time of costs and charges on member fund values**

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of charges and transaction costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs. As part of the changes, the Trustee is required to illustrate the cumulative effect over time of the application of transaction costs and charges on the value of a member's benefits.

We have produced the following illustrations to demonstrate the effect of the costs and charges set out above for investment funds and strategies available to members of the different sections of the Fund.

As projected fund values are dependent on investment strategy (i.e. investment returns) and whether members are actively contributing as well as the level of costs and charge, comparative figures have also been prepared.

**The illustrations below are for demonstration purposes only. Members are advised to consider both the level of costs and charges and the expected return on assets (i.e. the risk profile of the strategy) in making investment decisions and not in isolation.**

## The Top Up Fund:

Members in the Top Up Fund only have implicit TERs and transaction costs levied against their fund values (as these costs are implicit in the fund returns. The Company pays the explicit AMC's in relation to these members.

Strawman 1:

The illustration below is based on the youngest active member in the default annuity lifestyle strategy 44 years from retirement, with a normal retirement age of 65 and a starting fund value of £8,500. Projections are shown in current money terms. Members in the Top up section do not have any self-select options available to them.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
35	15,769	15,763	6
40	26,343	26,320	23
45	38,849	38,798	51
50	53,641	53,548	93
55	71,136	70,983	153
60	88,184	87,948	236
65	97,366	97,040	326

Strawman 2:

The illustration below is based on the average active member in the default annuity lifestyle strategy 15 years from retirement, with a normal retirement age of 65 and a starting fund value of £59,500. Projections are shown in current money terms. Members in the Top up section do not have any self-select options available to them.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
50	59,500	59,500	-
55	108,552	108,493	59
60	160,236	160,065	171
65	199,237	198,897	340

Strawman 3:

The illustration below is based on the average deferred member in the default annuity lifestyle strategy 15 years from retirement, with a normal retirement age of 65 and a starting fund value of £20,000. Projections are shown in current money terms. Members in the Top up section do not have any self-select options available to them.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
50	20,000	20,000	-
55	23,656	23,640	16
60	26,842	26,805	37
65	27,478	27,415	63

### Terry's IPA:

For the IPAs, the total cost of providing the benefit is met by the company. As the DC fund is notional, there are no charges deducted from members' funds. No illustrations have been prepared for these members as costs and charges do not have an impact on member fund values.

### AVCs and transferred in benefits:

#### Strawman 4:

The illustration below is based on the youngest active member in this section 36 years from retirement, with a normal retirement age of 65 and a starting fund value of £2,800. Projections are shown in current money terms. Illustrations are prepared for the 3 LGIM funds available to members in the section for comparative purposes.

Age	UK Equity Fund (TER and TCs)			Cash Fund (TER and TCs)			Global Equity 70:30 Fund (TER and TCs)		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
30	3,179	3,173	6	3,028	3,020	8	3,179	3,171	8
35	5,309	5,251	58	4,123	4,070	53	5,309	5,237	72
40	7,888	7,742	146	5,150	5,041	109	7,888	7,704	184
45	11,010	10,725	285	6,114	5,941	173	11,010	10,652	358
50	14,792	14,299	493	7,019	6,774	245	14,792	14,173	619
55	19,372	18,580	792	7,867	7,545	322	19,372	18,379	993
60	24,917	23,708	1,209	8,663	8,258	405	24,917	23,403	1,514
65	31,632	29,852	1,780	9,410	8,919	491	31,632	29,406	2,226

#### Strawman 5:

The illustration below is based on the average active member in this section 13 years from retirement, with a normal retirement age of 65 and a starting fund value of £24,500. Projections are shown in current money terms. Illustrations are prepared for the 3 LGIM funds available to members in the section for comparative purposes.

Age	UK Equity Fund (TER and TCs)			Cash Fund (TER and TCs)			Global Equity 70:30 Fund (TER and TCs)		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
55	38,099	37,886	213	33,410	33,183	227	38,099	37,831	268
60	64,540	63,688	852	47,523	46,790	733	64,540	63,467	1,073
65	96,560	94,596	1,964	60,762	59,386	1,376	96,560	94,090	2,470

## Strawman 6:

The illustration below is based on the average deferred member in this section 13 years from retirement, with a normal retirement age of 65 and a starting fund value of £20,000. Projections are shown in current money terms. Illustrations are prepared for the 3 LGIM funds available to members in the section for comparative purposes.

Age	UK Equity Fund (TER and TCs)			Cash Fund (TER and TCs)			Global Equity 70:30 Fund (TER and TCs)		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
55	22,434	22,289	145	19,249	19,095	154	22,434	22,251	183
60	27,167	26,701	466	18,059	17,677	382	27,167	26,580	587
65	32,898	31,986	912	16,942	16,364	578	32,898	31,752	1,146

## Assumptions for illustrations:

The following assumptions have been made for the purposes of the above illustrations:

1. The assumed growth rates (gross of costs and charges) are as follows:

Fund name	Return assumption (%)
<b>State Street funds:</b>	
UK Conventional Gilts over 15 years Index Sub-Fund	1.75
UK Index linked Gilts over 5 Years Index Sub-Fund	1.50
Sterling Liquidity Sub-Fund	2.50
Global Equity (50/50) Index Sub-Fund	6.00
<b>Legal &amp; General Funds:</b>	
L&G Cash 3	1.20
Global Equity 70:30 Index (PMC) 3	6.50
UK Equity Index (PMC) 3	6.50

2. The TERs and transaction costs assumed for the self-select funds and the funds underlying the default strategy are as follows:

Fund name	TER (%)	Transaction costs (%)	Total (%)
<b>State Street funds:</b>			
UK Conventional Gilts over 15 years Index Sub-Fund	0.00	0.010	0.010
UK Index linked Gilts over 5 Years Index Sub-Fund	0.00	0.030	0.030
Sterling Liquidity Sub-Fund	0.03	0.000	0.030
Global Equity (50/50) Index Sub-Fund	0.10	0.040	0.140
<b>Legal &amp; General Funds:</b>			
L&G Cash 3	0.29	-0.020	0.270
Global Equity 70:30 Index (PMC) 3	0.29	0.000	0.290
UK Equity Index (PMC) 3	0.29	-0.060	0.230

3. Inflation is assumed to be 2.5% p.a. with no allowance for real salary growth
4. Retirement is assumed at age 65.
5. For illustrations based on active members of the Fund, allowance has been made for initial future contributions as follows:
- Youngest member in Top Up fund: £1,444 p.a.
  - Average member in Top Up: £7,105 p.a.
  - Youngest member in AVCs: £260 p.a.
  - Average member in AVCs: £3,401 p.a.
- Contributions are assumed to be payable until age 65
6. The projected fund values shown are estimates for illustrative purposes only and are not guaranteed.



### Value for member assessment

During 2019 the Trustee assessed the extent to which the charges set out above represent good value for members. There is no legal definition of "good value" and the process of determining this for members is a subjective one. Based on advice from the Fund advisors, the Trustee has established a cost-benefit analysis framework in order to assess whether the member borne charges deliver good Value for Members. The assessment is relevant to the current membership.

The Trustee has identified the following areas where they believe there is good value for members. These benefits can be financial or non-financial in nature.

- **Costs**

- Based on the profile of the Fund's DC/AVC arrangements, we believe that the explicit charges are competitive when compared to current market rates on a like for like basis.
- The level of charges for the legacy AVC arrangements are generally higher than the other Fund options (which in broad terms is common for small legacy AVC arrangements).
- This, combined with changes to Zurich's platform which resulted in removal of the with profits fund meant that, following advice from its investment consultant at the time, the Trustee decided to move the AVC funds with Zurich to the most closely matched fund offered under the L&G AVC arrangement. This was completed on 25 May 2018.
- The Trustee is currently reviewing these arrangements with Equitable Life with their investment advisor.

- **Member communications and engagement (including support at retirement)**

- The Fund provides effective communications that are accurate, clear, informative and timely.
- The use of a variety of communication media, including access to well-developed online tools and helpful information around retirement planning via access to an online planning tool provided by Aon.
- Retirement letters have been amended to take account of pension freedoms (although pension freedom choices are not all available from the Fund) and the flexible retirement option has been added with paid for financial advice with a Trustee appointed IFA.
- Fund literature is available through the Company intranet, including the member booklet.
- Any Fund-specific changes or announcements are issued by the Trustee when required.

- **Investment choices**

- The Top Up Plan has a default annuity lifestyle strategy. This currently targets the format in which members are expected to take their DC funds.
- The Terry's Individual Pension Accounts (IPAs) are notional DC funds which increase in line with returns set by the Scheme Actuary with a view to matching Bank of England base interest rates, therefore there is no default investment strategy. Benefits are paid from DB assets.
- AVC members can access a range of funds available through L&G. We believe members have access to investment options that are capable of meeting their investment needs.

- **Sound administration**

- The Fund is administered by an in-house pensions team, with some administration function provided by the DC Fund providers (State Street, L&G, Zurich and Equitable).
- The Trustee has a service level agreement in place with the Pension Team and the DC providers and service is monitored against this on an annual basis.

- The quarterly reports provided by the administration team present performance statistics against these service levels, although these are not reported on separately for the DC items (although AVC items have been reported on since November 2018).
  - The Trustee does reviews the Fund's internal controls and processes on an annual basis.
  - The Trustee concludes that there are processes in place to monitor standards of administration and record-keeping for the Fund, including the AVC arrangements.
- **Plan governance**
    - Fund governance covers the time spent by the Trustee to ensure the Fund is run in compliance with the law and regulation, including taking account of the interests of its members.
    - The Trustee believes that good governance is key to ensuring that a framework exists and is actively in use to help deliver better member outcomes. The Trustee regularly reviews and updates its governance processes and procedures to make sure that these meet industry best practice.
    - Given the governance processes and procedures in place and the action taken by the Trustee, the governance arrangements for the Fund are considered appropriate based on the assessment undertaken.
  - **Retirement support**
    - The Trustee considers that the Fund has suitable retirement support in place which offers members access to support, guidance and information.
    - Members have access to paid for financial advice with a Trustee appointed IFA.
    - Members also have access to Aon's retirement options modeller to assist members with decision making.

Under the Trustee's assessment framework, described above, the Trustee believes that the Fund delivers value for its members in all of the key areas.

#### Trustee knowledge and understanding

All Trustee Directors are required to maintain a personal training log detailing all relevant training undertaken (both external and internal), which is reviewed annually by the pensions team and combined with the results of an annual self-assessment of each director's knowledge and understanding against the Pension Regulator's scope document, in order to establish a training agenda each year. This includes training from external specialists.

New Trustee Directors are provided with externally provided induction training and are expected to complete this within 6 months of their appointment. There were no new Trustees during the year. In addition, the Trustee receives information and advice from professional advisers, including quarterly hot topics on all pension matters. The relevant skills and experience of the advisers is used to inform Trustee decisions.

The Trustee has established a DC Committee, which considers matters relating to the Fund's DC arrangements. Members of the DC Committee have received additional training from an investment consultant on the details of the DC arrangements within the Fund and relevant regulatory requirements. The DC Committee is chaired by an external independent consultant and made up of 2 Trustee Directors, a representative from the sponsoring employer and the Fund Secretary.

The Trustee has met the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) during the year through the following measures:

- The Trustee Directors are conversant with the Trust Deed and Rules and the Statement of Investment Principles for the Fund. The Trustee reverts to the legal advisor for any clarification if required.
- Working towards completion of the Pension Regulator's trustee toolkit, including the modules relating to running a DC occupational arrangement (including modules on pension and trust law)
- Assessing training needs and addressing any gaps in individual Trustee Directors' knowledge and understanding by providing training after each Trustee Board meeting
- Undergoing training in the period on investment strategy

In addition to the knowledge and understanding of the Trustee board, the Trustee has engaged with their appointed professional advisers regularly throughout the year to ensure that they run the DC Section and exercise their functions properly, including the following:

- Reviewing quarterly administration reports from Pension Team and stewardship reports from its providers to monitor service delivery against agreed service levels
- Requesting changes to the administration reports so that the performance statistics on future reports are split to separately show DC tasks,
- Reviewing regularly (at least annually) the reporting of each individual investment fund against its benchmark, to monitor performance of the Fund's funds against targeted benchmarks and overall Fund aim and objectives
- Finalising a default strategy review exercise with advice and support from its advisers, and implementing changes to the underlying funds in the default arrangement,
- Reviewing legacy AVC providers and moving funds with Zurich to the L&G arrangement to provide members with better value
- Ensuring that an audit of the Trustee's Report and Accounts was carried out for the Fund year ended 5 April 2018
- Holding 4 regular Trustee meetings (with additional ad-hoc meetings and conference calls) with providers and advisers who provided reporting and specialist advice before asking the Trustee to take relevant decisions as required. Minutes of each Trustee meeting document the information shared and specialist advice given
- Maintaining a regime for proper governance (based on the Pension Regulator's DC Code of Practice) and using this as the basis for governance of the DC Section
- Undertaking and reviewing a code of practice review to understand and correct any gaps arising from the DC Code of Practice.

Taking account of actions taken individually and as a trustee body, and the professional advice available to them, the Trustee believes that each individual has the appropriate knowledge and understanding for it to exercise its duties effectively.

Greg Chick  
Trustee Chairman  
20 September 2019

## **Appendix 1 – Member borne Investment charges**

A summary of the Total Expense Ratio (TER) and Transaction costs (TC) on the DC funds are shown in the tables below.

<b>Fund name</b>	<b>TER (%)</b>	<b>Transaction costs (%)</b>	<b>Total (%)</b>
<b>State Street funds:</b>			
UK Conventional Gilts over 15 years Index Sub-Fund	0.00	0.010	0.010
UK Index linked Gilts over 5 Years Index Sub-Fund	0.00	0.030	0.030
Sterling Liquidity Sub-Fund	0.03	0.000	0.030
Global Equity (50/50) Index Sub-Fund	0.10	0.040	0.140
<b>Legal &amp; General Funds:</b>			
L&G Cash 3	0.29	-0.020**	0.270
Global Equity 70:30 Index (PMC) 3	0.29	0.000**	0.290
UK Equity Index (PMC) 3	0.29	-0.060**	0.230
<b>Equitable Life funds:</b>			
With-profits fund	1.50*	0.036	1.536
Managed fund	0.75	0.019	0.769

\* includes 0.5% in respect of the investment guarantee

\*\*costs in respect of the previous scheme year, current year costs were not available from L&G at this time