

CADBURY MONDELEZ PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES IN RESPECT OF THE DEFAULT INVESTMENT OPTION FOR THE DC SECTION

1. Introduction

The Trustee of the Cadbury Mondelez Pension Fund (the “Fund”) has drawn up this Statement of Investment Principles (“Statement”), in respect of the default investment option.

The Statement complies with the requirements of the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations and subsequent legislation and should be read in conjunction with the main Statement of Investment Principles for the Fund.

2. Investment Policy

2.1 Objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of members’ working lives. The Trustee also recognises that there are different types of members within the DC Section with different contribution rates and benefits that are linked to one of the Company’s defined benefit arrangements. Some members of this DC Section are included in more than one category of benefit type.

The Trustee has agreed an investment strategy that reflects these characteristics.

The following encapsulates the Trustee’s objectives:

- To provide a default investment option to avoid members having to make a decision.
- Offer a lifestyle strategy which facilitates long term capital growth for member savings.
- Offer a strategy that enable members to reduce risk in their investments as they approach retirement.
- To provide a strategy that reflects the expectation on how members will take benefits at retirement.

Members with Top-Up accounts

Based on the Trustee’s understanding of the circumstances of members with Top-Up accounts, the Trustee believes that an investment strategy that targets a 75% annuity purchase and 25% cash at retirement is likely to reflect a typical member’s choice of how they take benefits.

The Trustee is responsible for deciding the constituent funds to populate the lifestyle strategy to offer to members. In determining the types of funds and lifestyle strategies that are offered, the Trustee has taken investment advice regarding the suitability of investment vehicles considering factors such as: the asset class (or classes), the level of diversification and the nature of the investment objectives.

The Trustee has no influence over the investment aims of each fund used or how the investment managers choose the underlying investments within each fund, as the assets are pooled.

The Trustee will regularly obtain professional advice to monitor and review the suitability of the funds provided and from time to time may change the managers or investment options if it is deemed appropriate.

2.2 Policies with regards to risk

The Trustee recognises that all forms of investment carry some degree of volatility risk. The Trustee has considered the risks below when setting the investment arrangements and understands that this is not an exhaustive list of all the risks that the members face.

Investment return risk – the risk that low investment returns over members' working lives will not keep pace with inflation and the member's account does not, therefore, secure an adequate pension. The Trustee has sought to reduce this risk by investing in a growth-oriented fund during the accumulation phase.

Manager risk – the risk that the decisions taken by an investment manager may have a detrimental impact on the returns of a fund. The Trustee has mitigated this risk by investing in passively managed funds which attempt to replicate rather than outperform market indices.

Annuity conversion risk – the risk that, as the cost of an annuity rises, the value of the investment fund that will be used to purchase the annuity does not change by an equal amount. The cost of purchasing an annuity is closely linked to the value of long term bonds. The Trustee has sought to reduce this risk by switching member funds gradually into a combination of bond and cash funds as a member approaches retirement.

Inflation risk – this is the risk of investments not keeping pace with inflation. The Trustee has sought to address this risk by investing in a fund with significant weightings in global equities during the accumulation phase. This is expected to achieve a real rate of return over both price inflation and earnings growth in the long term.

Default risk – the value of interest bearing securities would be at risk if a bond issuer or licensed deposit taker defaults on their commitments. The Trustee has noted this risk.

Liquidity risk – members are able to withdraw assets when retiring. The Trustee is mindful of these liquidity requirements when selecting the range of fund options available to members.

Target risk – targeting a different benefit to that which specific members may take at retirement. The Trustee is aware that not all members will make the same decisions at retirement and has adopted a pragmatic strategy.

3. Investment Strategy

3.1 Investment Options

The Trustee believes, having taken expert advice, that it is appropriate to offer a single lifestyle strategy to cater for the specific nature of the membership.

The Trustee regularly reviews the suitability of the underlying funds provided and, from time to time, may change funds or introduce additional investment options, including additional lifestyle strategies.

3.2 Default Investment Option

The Trustee recognises that the Fund caters for members with different types of Top-up accounts. Some accounts underpin a defined benefit entitlement whereas other accounts are purely defined contribution and are in addition to the defined benefit entitlement.

The default investment option has been constructed following consideration of the membership of the DC section. The Trustee also considered the various options members will have regarding the way in which they draw their benefits in retirement, and the charge cap that became effective for default investment options from 6 April 2015.

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

- To generate long term growth during the accumulation phase

The accumulation phase of the default investment option invests in equities.

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

The Trustee has agreed to implement a strategy that seeks to reduce investment risk as the member approaches retirement. Moreover, as members approach retirement, the Trustee believes the primary aim should be to provide protection against a mismatch between asset values and the expected costs of retirement benefits.

3.3 The Trustee's policies in relation to the default arrangement in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended, are detailed below:

- The default investment option manages investment risks through a diversified strategic asset allocation consisting of mainstream assets classes. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default investment option, the Trustee has explicitly considered the trade-off between risk and expected returns.

- Assets in the default investment option are invested in the best interests of members, taking into account the profile of members. In particular, the Trustee has considered the make-up of the Fund's membership when deciding on the default investment option.
- Members are supported by clear communications regarding the aims of the default option and the access to alternative investment approaches.
- Members do not have to take their retirement benefits in line with those targeted by the default option; the target benefits are merely used to determine the investment strategy held pre-retirement.
- Assets in the default investment option are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by State Street Global Advisers ("SSgA"). The selection, retention and realisation of assets within the pooled funds are delegated to SSgA in line with the mandates of the funds.
- Likewise, they have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

3.4 In setting a default investment strategy, the Trustee's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from its investment adviser when setting the Fund's asset allocation, when selecting managers and when monitoring their performance.

3.5 Structure of the Default (Lifestyle) Option

Years to Retirement Date	SSgA Net Global Equity (50/50) (Developed 50% Hedged) Index Fund	SSgA UK Conventional Gilts Over 15 Years Index Fund	SSgA UK Index Linked Gilts Over 5 Years Index Fund	SSgA Sterling Liquidity Fund
10 and over	100	0	0	0
9	90	5	5	0
8	80	10	10	0
7	70	15	15	0
6	60	20	20	0
5	50	25	25	0
4	40	30	30	0
3	30	35	35	0

Years to Retirement Date	SSgA Net Global Equity (50/50) (Developed 50% Hedged) Index Fund	SSgA UK Conventional Gilts Over 15 Years Index Fund	SSgA UK Index Linked Gilts Over 5 Years Index Fund	SSgA Sterling Liquidity Fund
2	20	36	36	8
1	10	36	36	18
0	0	37.5	37.5	25

Taking into account the demographics of the membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the current default investment options are appropriate and will continue to review these over time, at least triennially, or after significant changes to the membership, if sooner.

4. **Stewardship – voting and engagement**

As part of their delegated responsibilities, the Trustee expects the Fund's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- Exercise the Trustee's voting rights in relation to the Fund's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the DC adviser regarding any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

5. **Member's views and non-financial factors**

In setting and implementing the Fund's investment strategy the Trustee does not explicitly consider the views of Fund members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

The underlying funds that make up the default investment strategy should not apply personal ethical or moral judgements as the sole basis for an investment decision.

6. **Review of this Statement**

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy or member demographics. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes 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

Signed on behalf of the Trustee of the Cadbury Mondelez Pension Fund

Signed: Greg Chick Date: 12/7/2019

Signed: Allan Whalley Date: 12/8/2019
