

Kellogg's (Great Britain) Pension Fund

Statement of Investment Principles – May 2024

1. Introduction

The Trustee Directors 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.

2. Investment Strategy and Overarching Policies

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 (WTW) 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 strategy consistent with these objectives.

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.

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' objective is to provide benefit security for members through investment in bulk annuity policies with a regulated insurance company. Specifically, the Trustees have purchased "buy-in" bulk annuity policies with Legal & General Assurance Society ("LGAS").

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 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. This is minimised by seeking to match 100% of the liabilities with annuities held with a regulated insurance company.

The Trustees have also retained liquid investments (outside of the bulk annuity policies) expected to be sufficient to meet short term outstanding commitments and expenses. Where a balancing payment is due to be made in respect of any annuity, these liquid assets will be used to settle any such liability.

The annuities represent a concentration of risk that the provider does not make the required payments. As the policies are governed by insurance market solvency regulations, the Trustees believe this risk is low and have mitigated it by careful due diligence on the provider, taking professional regulated advice on the insurer selection, and through contract terms.

Although bulk annuities are illiquid investments and cannot be traded on regulated markets, the Trustees are satisfied this is appropriate given the security they provide by paying members' benefits as they fall due.

The safe custody of the Fund's remaining invested assets is delegated to professional custodians (via the use of pooled vehicles).

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 and Day to Day Management of the Assets

After a careful suitability review, the Trustees have invested the majority of Fund assets in bulk annuity policies with LGAS. LGAS is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The Trustees have taken steps to satisfy themselves that LGAS has the appropriate knowledge and experience.

Remaining invested assets are held in a pooled liquidity fund.

2.5 Expected Return

An expected return on the bulk annuity policies has not been determined but is implicit in the price of the contracts.

The pooled liquidity fund is expected to generate a return line with or above its benchmark which is SONIA.

2.6 Selection, Retention and Realisation of Investments

The selection, retention and realisation of assets is carried out in a way consistent with the overall principles set out in this Statement. Regular payments to the Fund in respect of the insured members and their benefit entitlements are made under the annuity contracts. These payments are available to meet the Fund's cash outflows.

Any additional cash flow requirements, such as expenses, are expected to be met from residual cash or - if there is a shortfall - additional payments from the Sponsor.

3. Investment Manager Arrangements

Overview

The Trustees delegate the day to day management of the assets to an investment manager as detailed in earlier sections of this statement.

The Fund's investment manager is appointed based on their capabilities and suitability as regards meeting the Fund's objectives. As noted, excluding the annuity contracts, the Fund's remaining invested assets are now held in a pooled liquidity fund.

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

As the Trustees invest in a pooled vehicle it is accepted that there is no ability to specify the risk profile and return targets of the manager. However, a mandate has been selected to align with the overall investment strategy as documented in this Statement.

Investment Manager Remuneration

The investment manager is remunerated by way of a fee calculated as a percentage of assets under management. 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 may periodically review fee transparency and total expense ratio charges in respect of the remaining invested assets.

The investment manager is not remunerated based on portfolio turnover.

Evaluating Investment Managers

The investment manager is 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.

Time Horizon and Duration of Appointments

Regular investment monitoring reports are no longer relevant, given the majority of the Fund assets are invested in bulk annuity policies.

However, if the liquidity fund 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.

Portfolio turnover costs

The Trustees do not actively monitor portfolio turnover costs in respect of the remaining invested assets.

4. Additional Voluntary Contributions (AVCs)

Members of the Fund have had 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.

5. 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 have implicitly delegated consideration of ESG issues, engagement and stewardship obligations to LGAS in relation to the majority of Fund assets via the bulk annuity contracts, and to a professional investment manager in relation to remaining invested assets. The annuity contracts make contractual payments to the Fund dependent only on the benefits payable under the contracts. As a result, the Trustees have minimal direct exposure to risks arising from long-term sustainability issues, including climate change. They are however satisfied that LGAS apply due consideration to ESG issues in the investment of assets underlying the contracts.

6. 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.

7. Advisors and Other Relevant Parties

7.1 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 manager. The Trustees are not responsible for the appointment of the custodian of the assets contained within pooled fund investments. Custody of the pooled liquidity fund assets is provided by JP Morgan.

7.2 Actuary

The scheme 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.

Helen Griffin of WTW is the appointed Fund Actuary.

7.3 Investment Consultant

The Trustees receive professional investment advice from Mercer, including in relation to strategic asset allocation, investment manager appointments, and cashflow management.

7.4 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, Cardano. In light of the position of the Fund, the reliance on the covenant has reduced, however, the Trustees will engage the covenant advisor as required.

7.5 Performance Measurement

Mercer will provide ongoing analysis of the Fund and manager performance for the remaining invested assets as and when required.

8. 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