

Pirelli Tyres Limited Pension & Life Assurance Fund

Implementation Statement



cardano

Contents

Introduction	3
Executive summary	3
1. Our Stewardship Policy	4
1.1. What is Stewardship?	4
1.2. What is our Stewardship Policy?	4
1.3. How have we implemented our Stewardship Policy?	4
2. Voting Activity	7
2.1. How did the managers vote?	7
2.2. Use of proxy voting services	7
2.3. Examples of significant votes	8
3. Engagement Activity	9

Introduction

This implementation statement (“Statement”) is produced alongside the Trustee Report and Accounts and is required by pensions regulations¹. The Trustee of the Pirelli Common Investment Fund (the “Trustee” and the “Fund” respectively) has prepared this Statement to provide stakeholders with a transparent and accurate review of how it has acted in line with the stewardship and engagement policies set out in the Statement of Investment Principles (the “SIP”) for the during the accounting year.

This Statement includes details of:

- Compliance against the stewardship and voting policies;
- Any changes made to the stewardship and voting policies (“Stewardship Policy”) during the year; and
- Specifically, how the Fund’s investment managers voted and engaged on our behalf.

This statement has been prepared by the Trustee to cover the period 31 March 2021 to 31 March 2022.

The Statement is publicly available at <https://www.pirelli.com/tyres/en-gb/uk-legal-information>

Executive summary

The day to day management of the Fund’s assets is delegated to Cardano Risk Management Limited (the “Fiduciary Manager”). In advance of the appointment, the Trustee took steps to ensure that the management of the Fund’s assets and the Fiduciary Manager’s policies were aligned with the Trustee’s own policies. The Trustee continues to monitor the Fiduciary Manager, as part of its regular interactions with them.

The Trustee monitors the voting and engagement activity of the Fund’s investment managers, and, through the Fiduciary Manager, challenges their decisions. Effort is focused on those investment managers where voting and engagement is material. The policies of those investment managers are summarised in this Statement, along with examples of the type of activity which took place during the period covered. Some of the investment managers use investment approaches where stewardship is less likely to be relevant or significant. The Trustee is comfortable that the Fiduciary Manager has an appropriate approach to assess the stewardship and voting policies for all investment managers and receives a summary of the Fiduciary Manager’s overall assessments once a quarter.

¹ The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended)

1. Our Stewardship Policy

1.1. What is Stewardship?

“Stewardship” is the responsible allocation, management and oversight of capital to create long-term value, which should also lead to sustainable benefits for the economy, the environment and society. In practice, stewardship is effected through exercising the right to vote on shares owned and engaging with the management of companies or properties in which we have a stake.

1.2. What is our Stewardship Policy?

The Stewardship Policy in force during the financial year was:

“The Trustee’ policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager encourages the Fund’s investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

Where relevant, the Trustee prefers its investment managers to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.

The Fiduciary Manager is responsible for engaging with investment managers regarding those investment managers’ voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact and the Trustee monitors the Fiduciary Manager’s activity in this regard.”

1.3. How have we implemented our Stewardship Policy?

Fund structuring

The Trustee holds investments primarily on an indirect basis through pooled funds, but also holds some assets such as Government Bonds directly. The reason for this approach is that:

- It provides a broader range of investment opportunities, which helps to improve the diversification of investments, which in turn helps to manage risk;
- Fixed costs are shared amongst other investors, thereby reducing overall costs; and
- It simplifies the implementation process as existing funds can be used with standard terms and agreements, reducing the overall governance burden both on the Trustee and the Sponsor.

Where investments are made in pooled funds the Trustee follows the voting and engagement policies of the investment managers of the pooled funds. However, the Trustee remains responsible for ensuring that the investment managers act consistently with the Trustee’s Stewardship Policy. The Trustee achieves this by ensuring that the Fiduciary Manager’s beliefs and policies on engagement, manager selection and manager monitoring are aligned with the Stewardship Policy.

External engagements

The Trustee assesses that the Fiduciary Manager has been aligned with our Stewardship Policy throughout the year. For example, the Fiduciary Manager has been a signatory to the UN Principles for Responsible Investment since 2011 and they are a signatory to the UK Stewardship Code 2020.

In addition, the Fiduciary Manager is a member of a range of sustainable investment organisations, including those noted below.



Engagement beliefs

The development of engagement beliefs is an important Trustee responsibility. The day-to-day implementation of the beliefs has been delegated to the Fiduciary Manager, having concluded that the Fiduciary Manager's core beliefs are consistent with the Trustee's.

The beliefs driving the Fiduciary Manager's approach to engagement are as follows:

Quality over quantity

The Fiduciary Manager is interested in a few meaningful quality engagements with strong reporting (rather than being interested in the quantity of votes). They want managers to prioritise the highest sustainability impacts in their portfolios

Long-term

The Fiduciary Manager encourages underlying managers to form long-term relationships with companies. Successful stewardship can take many months, maybe even years

Real world impact

The Fiduciary Manager is interested in engagement on topics that contribute to positive real-world sustainability impact (such as, reduction in absolute carbon emissions)

Transparency

Some engagement, perhaps even most engagement, will be unsuccessful. The Fiduciary Manager is realistic, and they prefer transparency from managers

Collaboration

Engagement is more efficient when managers collaborate – not just for the managers, but for the companies too (who will field fewer, but higher conviction, engagements from their investors). The Fiduciary Manager encourages underlying managers to participate in collaborative initiatives, such as Climate Action 100+

Innovation

The Fiduciary Manager welcomes innovation, for example, third-party tools to assess a company's conviction on sustainability topics

Integrated

The Fiduciary Manager is interested in how (if at all) stewardship contributes to the investment thesis and whether managers link their stewardship to other engagement activity (for example, policy engagement)

Manager selection and monitoring

When selecting investment managers, the Fiduciary Manager scrutinises the stewardship, voting and engagement policies. Activities of investment managers are assessed before the initial investment to ensure they align with the Trustee's Stewardship Policy. The Fiduciary Manager monitors the investment managers on an ongoing basis, ensuring their activities align with the Stewardship Policy and engaging with the investment managers to help them improve their stewardship approach.

The Fiduciary Manager closely monitors investment managers who do not meet the stewardship standards and actively works with them to improve their policies, processes and reporting.

The Trustee monitors the voting and engagement activity of our investment managers and challenges their activity through the Fiduciary Manager. Managers are categorised according to how material voting and engagement is in their mandate. The Fiduciary Manager focuses its efforts on any managers where voting and engagement is material.

The Fund invests in a series of Private Market investments. Most of these strategies own controlling stakes in the underlying businesses, meaning that stewardship and engagement is evidenced in a much broader way than, for example, investing in company shares that are listed on a stock market (i.e. public market investments).

One important way for a Private Markets investment manager to add value is to ensure that each business has the best corporate governance possible – dictating and controlling the policies and make up of senior leadership (versus voting at shareholder meetings). Engagement is, therefore, highly relevant in some cases and we include some examples in the relevant section of this report.

Compliance statement

To the best of our knowledge, the Trustee has complied with the Stewardship Policy over the year.

2. Voting Activity

The Shareholder Rights Directive (SRD II) and the UK Stewardship Code 2020 both emphasise the importance of institutional investors and asset managers engaging with the companies in which they invest. They stress the importance of exercising shareholder voting rights effectively. Voting only applies to equities held by the Fund and given the use of pooled funds, there is limited scope for the Trustee to directly influence voting. Voting is carried out by the investment managers on behalf of the Trustee.

2.1. How did the managers vote?

The tables below provide a summary of the voting activity undertaken by the managers during the year.

Note: the managers included denote those where voting and engagement are seen as material aspects of their investment process, rather than necessarily those investments the Fund has the largest exposure to. In addition, not all managers in this category will always have voting opportunities in any given year. Although all investment managers that the Fund invests with, directly or indirectly, are subject to the Trustee's Stewardship Policy and monitored accordingly, some managers are not subject to engagement / stewardship disclosure obligations.

Fund name	Meetings eligible to vote in over year	Resolutions eligible to vote on over year	Resolutions voted on	Votes with mgmt	Votes against mgmt	Resolutions abstained from
Dorsal	22	277	100%	100%	0%	0%
Egerton	39	513	94%	97%	0%	2%
Polar	54	588	99%	95%	5%	0%
Sunriver	16	155	92%	90%	5%	5%

Note: The above table includes managers that had long equity exposure on 31/03/2022 and that were deemed by the Fiduciary Manager to be materially exposed to voting and engagement activities. Some managers that are sensitive about voting records being shared have been excluded.

2.2. Use of proxy voting services

Proxy voting services are specialist firms that provide an outsourced voting service. Some investment managers choose to use these services (rather than vote themselves) if, for example: the investment manager lacks the resource to research each vote and submit votes; or, the investment manager wants to follow a recognised code of practice and the proxy voting service is an effective way to implement this

Using a proxy voting service does not necessarily mean that voting is done poorly. In fact, many professional proxy voting services are able to devote significant resource to researching AGM motions and are able to follow best practice guides like the Financial Reporting Council's (FRC) Stewardship Code.

The Trustee recognises that by having a suitable Stewardship Policy in place and using the Fiduciary Manager to monitor voting activity, investment managers can create more engagement over time; particularly in the case of smaller, more boutique managers with less in-house expertise and resource.

The table below outlines the use of proxy voting services by the Fund's investment managers where voting is deemed to be of material importance.

Manager	Use of proxy voting service
Dorsal	This manager does not use any proxy advisory service
Egerton	This manager does not use proxy advisory services but they do utilise the services of Proxy Edge to cast votes
Polar	This manager uses Institutional Shareholder Services as a proxy advisor
Sunriver	This manager uses Institutional Shareholder Services as a proxy advisor

Note: The above table includes managers that had long equity exposure on 31/03/2022 and that were deemed by the Fiduciary Manager to be materially exposed to voting and engagement activities. Some managers that are sensitive about voting records being shared have been excluded.

2.3. Examples of significant votes

When collating voting statistics, we asked managers to provide examples of significant votes cast. The tables provides a sample of responses received.

Manager	Company	Summary of resolution	Vote cast	Rationale / Outcome
Egerton	Canadian Pacific	Voted with a shareholder proposal for the company's board of directors to produce a greenhouse gas emission levels reduction plan, and to report annually on the progress made towards such plan.	For	Improved ESG risk management The resolution passed
Polar	Vertex Pharmaceuticals Incorporated	Political Lobbying Disclosure- Shareholder Resolution	For	Greater transparency for shareholders on lobbying payments made for and on behalf of the company The resolution passed
Sunriver	Box Inc	Dissident Proxy –activist investor Starboard Value LP proposed resolutions to nominate three of its own directors to the 10 member board citing slow growth and lack of company profitability	For	The dissident proxy failed to get enough votes and therefore the resolution to nominate three of its own directors was not passed

3. Engagement Activity

Engagement is considered to be purposeful dialogue with a specific and targeted objective to achieve positive change in the interests of beneficiaries, thereby a key action required for delivering good stewardship. The Fiduciary Manager is passionate about active engagement, as opposed to disinvestment or exclusions practices, in order create positive real-world change. Through engagement, asset managers can build relationships with the companies in which they invest, helping to steward companies on a range of topics, including sustainability.

The tables below provide examples of engagement activity of the Fund's investment managers where engagement should be a material activity in the management of the assets.

Egerton

Key points	Engagement activity
<p>Engagement Theme: Governance</p> <p>Industry: Car Manufacturing</p> <p>Outcome: Improved treatment for a variety of stakeholders, particularly minority shareholders Greater stakeholder representation with improved voting rights</p>	<p>The Manager believes its engagement with the Company on governance issues has the ability to improve shareholder returns, as well as treatment of a variety of stakeholders, particularly minority shareholders, which in turn will bring about greater stakeholder representation and enable further positive change going forward.</p> <p>The Manager has frequent one-on-one discussions with the Chairman about governance where they convey a strong preference that minority shareholders should be better represented and receive a vote. The Manager recently proposed that the Company equalise or harmonise its dual share class structure of non-voting preference shares and voting ordinary shares into one share class of voting shares to afford shareholders such as Egerton better representation.</p> <p>In addition to harmonising the share class structure, the Manager has also proposed improving the supervisory board by including more independent directors.</p>

Polar

Key points	Engagement activity
<p>Engagement Theme: Human Capital Development , ESG Reporting and Disclosure</p> <p>Industry: Biotechnology</p> <p>Outcome: Improved alignment between practice and reporting</p>	<p>While the Company scores well overall on MSCI ESG ratings, particularly on governance and certain social issues (it is notably exemplary in product quality and safety), the Company lacks evidence of policies around human capital development and has experienced challenges on hiring and incentives. The Company is headquartered in Europe but has significant operations in the US where remuneration standards can be quite different.</p> <p>As a significant shareholder, the Manager has provided advice on the company plans but also highlighted the importance of disclosures on ESG to the investor relations team. The Manager is assured that the important aspects of social development are already deeply ingrained in the company culture and expects to see further progress in documentation and filings soon.</p> <p>In addition, the Manager's investment team conduct ongoing ESG due diligence on the investment thesis of the Company, which includes contacting the company directly to understand their commitment to ESG issues. This has led to improved policies and disclosures.</p>

CI Capital

Key points	Engagement activity
<p>Engagement Theme: Social and Governance Factors</p> <p>Industry: Residential Services</p> <p>Outcome: Improved health and safety standards Improved immigration policy standards Formalised ethics and compliance policies for charitable contributions Vehicle electrification, reducing carbon footprint and improving environmental factors</p>	<p>In conducting ESG due diligence on an investee company, a residential services provider, the Firm identified a number of areas for improvement relating to ESG, which have been included in the Company's value creation plan, including:</p> <p>Worker Health and Safety: Bolstering the Company's safety audit program with annual programmatic audits and requesting subcontractor incident rates prior to engagement to better assess safety performance</p> <p>Social and Labour Conditions: Revising the Company's engagement survey process to improve response rates for in-the- field crew workers and better documenting the Company's internal immigration compliance program</p> <p>Ethics and Compliance: Formalising the Company's ethics and compliance policies and reviewing recipients of corporate charitable contributions for ethical/reputational concerns</p> <p>In addition, CI Capital has begun to consider the viability of electrifying the vehicle fleets of its portfolio companies and is using the Company's fleet as a test case to analyse this issue.</p>

Quantum

Key points	Engagement activity
<p>Engagement Theme: Environmental</p> <p>Industry: Energy</p> <p>Outcome: The manager's investee company, a notable oil and gas company, maintains strict emissions and safety standards to ensure minimal environmental impact from the business operations By engaging with oil and gas companies, providing capital and active support, the green energy transition can take place while minimising the disruption to global economies</p>	<p>A portfolio company, an oil and gas company, minimises methane and CO2 emissions by ensuring all equipment, tank seals and gas flares are working properly, targeting stringent thresholds to protect the environment. A primary source for leaks comes from unlit flare stacks, where the flare burns excess produced gas that cannot be sold primarily due to oil process facility disruptions. Oil tank hatches can also allow some methane to escape.</p> <p>In a recent case, the Company's proprietary monitoring system detected a leak at one of its sites, receiving a second alert that the oil tanks were overpressured. This resulted in methane being released, as designed, to relieve pressure and prevent the tanks from bursting. An engineer arrived on location within one hour and was able to quickly identify the issue and repair the leaking valve, returning the facility to normal operations.</p>

Kitty Hawk

Key points	Engagement activity
<p>Engagement Theme: Environmental and social – sustainable development</p> <p>Industry: Residential Mixed Use</p> <p>Outcome: The manager is leading on a county council project to restore a vacant listed building site They ensured all stakeholders were in alignment and providing best-in-class ESG credentials By bringing a Grade II listed building back into use, the project will bring both environmental and social value to the community This includes affordable housing, employment opportunities and skills,</p>	<p>One of the Manager's engagements is with a British county council around planning applications (including affordable housing, biodiversity, energy efficiency, green travel)</p> <p>Initial engagement on a recent project began pre-acquisition, when writing a business plan and obtaining approval for the asset. ESG and landscaping considerations are discussed at all monthly board meetings and fortnightly project advisory meetings. The Manager led the engagement to ensure they were in alignment on providing best-in-class ESG credentials, prior to acquisition.</p> <p>As the project continues, they are ensuring ESG credentials remain at the top of the agenda along with the preservation of a listed building. Following planning, should the Manager decide to build out the scheme, they will ensure all contractors have to report their ESG credentials and goals for the project as part of the tender process in order to increase supply chain sustainability and resilience.</p> <p>By bringing back a Grade II listed building back into use, the project will bring both environmental and social value to the community including affordable housing, employment opportunities and skills, energy-efficient homes, sustainable refurbishment, greater access to green spaces and enhance</p>

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greater access to green spaces and biodiversity.
enhance biodiversity.

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