

Pirelli Tyres Limited 1988 Pension and Life Assurance Fund (the “Fund”) – DC Section

Statement of Investment Principles

August 2019

This Statement of Investment Principles reflects the Trustees recent decision to amend the available funds. Details have not been advised to members as at October 2019.

Contents

| | | |
|---|--|----|
| 1 | Introduction | 2 |
| | Fund background | 2 |
| | Regulatory requirements and considerations | 2 |
| 2 | Statement of Investment Principles | 3 |
| | Introduction | 3 |
| | Key investment principles..... | 3 |
| 3 | Appointments and Responsibilities | 9 |
| | Appendix – Fund Range and Objectives..... | 12 |
| | Fund Options | 12 |
| | Lifestyle Strategies..... | 13 |
| | Default Option | 14 |

1 Introduction

Fund background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the Pirelli Tyres Limited 1988 Pension and Life Assurance Fund DC Section (the “Fund”). A separate document is produced for the DB Section
- The Fund:
 - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries;
 - provides benefits calculated on a defined contribution (DC) basis; and
 - is open to new members.
- Buck Consultants (Administration & Investment) Limited are investment consultants to the Trustees.

Regulatory requirements and considerations

- This statement covers the requirements of, and the Scheme’s compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005, as well as additional non-statutory information recommended to be included following the Myners review of “Institutional Investing in the UK”, the results of which were first published in 2001 (referred to as the “Myners Principles”).
- The Myners Principles require Trustee Boards to act in a transparent and responsible manner. The information set out in this document helps ensure that the Trustees are complying with this requirement.
- The Trustees have taken into account the requirements and recommendations within the Pension Regulator’s DC code and regulatory guidance. Information on the Trustees’ approach to investment matters within the Fund, and in particular in setting the default arrangement, are included within this document.

2 Statement of Investment Principles

Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.
- In accordance with section 35 of the Pensions Act 1995, the Trustees have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the Sponsoring Employer.
- The Trustees will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Fund's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

Key investment principles

Kind of Investments to be Held

- The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustees have considered the attributes of the various asset classes these attributes being:
 - security (or quality) of the investment,
 - yield (expected long-term return);
 - spread (or volatility) of returns;
 - term (or duration) of the investment;
 - exchange rate risk;
 - marketability/liquidity (i.e., the tradability on regulated markets); and
 - taxation.
- The Trustees consider all of the stated classes of investment to be suitable to the circumstances of the Fund.

Investment Decisions

- Investment decisions are taken by the Trustee Board as a whole. The Trustees believe that collective responsibility is the appropriate structure, given the size of the Board. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.
- Investment decisions relating to the Fund are under the Trustees' control without constraint by the Sponsoring Employer. The Trustees are obliged to consult with the Sponsoring Employer when changing this Statement.
- Day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. Investment management agreements and an insurance contract has been exchanged with the independently appointed investment managers and the platform provider and these are reviewed from time-to-time. In addition, the underlying managers accessed via the platform provider are reviewed regularly to ensure that the manner in which they make investments on the Trustees' behalf is suitable for the Fund, and appropriately diversified.

Investment Objectives and Suitability of Investments

- The Trustees believe that fund selection is an important decision for all members since it is likely to have an important influence on the risk taken and return achieved on members' pension savings. The Trustees regularly communicate with members to enable them to understand the importance of this area and to provide them with education to help them to make informed choices about their selection of funds.
- However, the Trustees also recognise that in practice many members do not actively make an investment choice and are instead invested in the default option. The Trustees therefore recognise the importance of designing an appropriate default option for the Fund's membership.
- Whilst the Trustees believe the chosen default option is a reasonable choice for a lot of the membership, ultimately each member should take into account their own personal circumstances when determining whether the default option or an alternative strategy would best meet their needs.
- The default option has been designed having taken due regard to the membership profile of the Fund, including consideration of:
 - the size of members' retirement savings within the Fund;
 - members' current level of income and hence their likely expectations for income levels post retirement;
 - the fact that members may have other retirement savings invested outside of the Fund; and
 - the ways members may choose to use their savings to fund their retirement.

These factors have also been considered when setting the range of alternative investment options from which members can choose.

- The objective of the default option is to provide a balanced investment strategy for members who do not make an active investment choice. The strategy aims to maximise the level of return (net of fees) that a member could expect to receive from the Fund over the course of their working lifetime, while reducing the risk of them having income provision in retirement significantly below what may reasonably be expected.
- The objective of the alternative investment options available is to allow members to tailor their investments based on their individual investment requirements, while avoiding complexity. The range should assist members in achieving the following:
 - maximising the value of retirement benefits, to ensure a reasonable standard of living in retirement;
 - protecting the value of benefits in the years approaching retirement against equity market falls and (should they decide to purchase an annuity) fluctuations in annuity costs; and
 - tailoring a member's investments to meet his or her own needs, and to how the member intends to make use of their benefits at and through retirement.
- The Trustees recognise that members using the default option are likely to be less financially aware than those using self-select options and have taken this into account in the strategy design.
- The Trustees' investment consultant provides advice regarding the suitability of both the default option and the self-select options available.
- Details of the default and self-select options chosen (including the investment objectives of the individual funds) are shown in the appendix.
- Members are advised to take independent financial advice before choosing between these funds.
- The Trustees are satisfied that the funds offered to members and the appointed investment managers are consistent with the objectives of the Fund, particularly in relation to diversification, risk, expected return and liquidity.

Risk

- The Trustees have considered risk from a number of perspectives. These are the risk that:
 - the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement income;
 - investment market movements in the period prior to retirement lead to a substantial reduction in the anticipated level of pension or other retirement income;
 - investment market movements in the period just prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit;
 - the default option is not suitable for members who invest in it; and

- fees and transaction costs reduce the return achieved by members by an inappropriate extent.
- The investment strategy for the default option has been chosen with the aim of reducing these risks. The self-select funds available have been chosen to provide members with the flexibility to address these risks for themselves.
- To help address these risks, the Trustees also review the default option used and the fund range offered at least every three years, taking into account changes to the membership profile, developments within DC markets (including both product development and trends in member behaviour) and changes to legislation.

Expected Return on Investments

- The default option is expected to provide an appropriate return on members' investments, based on the Trustees' understanding of the Fund's membership and having taken into account the risk considerations set out above. The Trustees have also considered the return expectations of each of the alternative fund options offered.

Balance Between Different Types of Investments

- The investment managers will maintain a diversified portfolio of stocks or bonds within each of the funds offered under the Fund (both within the default and self-select options).
- In addition, the design of the default option provides further diversification through the use of multiple funds throughout a member's working lifetime.

Investment Manager Monitoring

- The Trustees will assess the performance, processes and cost effectiveness of the investment managers by means of regular, six monthly reviews of the results and other information, in consultation with the investment consultant.
- All investment decisions, and the overall performance of the investment manager, are monitored by the Trustees with the assistance of the investment consultant.
- The investment managers will provide the Trustees with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to the portfolios. The investment managers will also report verbally on request to the Trustees.
- The investment managers will inform the Trustees of any changes in the internal performance objective and guidelines of any pooled funds used by the Fund as and when they occur.
- The Trustees will assess the quality of the performance and processes of the investment managers by means of a review at least once every three years in consultation with the investment consultant.
- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

Performance Monitoring

- Each of the funds in which the Fund invests has a stated performance objective against which the performance is measured.

- The Trustees will review the performance of the investment managers from time to time, based on the results of their performance and investment process.
- The investment managers are expected to provide written reports on a quarterly basis.
- The Trustees receive an independent investment performance monitoring report from their investment consultant on a six monthly basis.

Realisation of Investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the investment managers to be able to realise the Fund's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the members. The majority of the assets are not expected to take an undue time to liquidate. This applies both to the default option and to the alternative fund options offered.

Financially material considerations

- The Trustees expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.
- The Trustees have reviewed the investment managers' policies in respect of financially material considerations and are satisfied that it is consistent with the above approach.
- The Trustees have added an ethical global equity fund to the wider fund range. Members wishing to have their pension managed in an ethical manner can self-select this fund.

Non-financial matters

- Non-financial matters may be taken into account if the Trustees have good reason to think that the members would share the concern; and that the decision does not involve a risk of significant detriment to members' financial interests.

Stewardship in relation to the Scheme's assets

- The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. Trustees can promote an investment's long term success through monitoring, engagement and/or voting, either directly or through their investment managers.

Engagement and monitoring

- The Trustees' policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and expects the investment managers to use their discretion to maximise financial returns for members and others over the long.

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- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity.

3 Appointments and Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Fund.

Trustees

The Trustees' primary responsibilities include:

- Preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment managers.
- Appointing investment consultants and investment managers as necessary for the good stewardship of the Fund's assets.
- Reviewing the investment strategy on a regular basis, taking advice from the investment consultant.
- Assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance).
- Monitoring the compliance of the investment arrangements with this Statement on a regular basis.
- Monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustees in respect of the Fund's equity holdings.

Investment Consultant

The main responsibilities of the investment consultant include:

- Assisting the Trustees in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer.
- Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustees.
- Advising the Trustees on the selection and review of the investment managers and platform provider.
- Providing training or education on any investment related matter as and when the Trustees see fit.

Investment Managers and Platform Providers

The investment managers' & platform provider's main responsibilities include:

- Investing assets in a manner that is consistent with the objectives set.
- Ensuring that investment of the Fund's assets is compliant with prevailing legislation and the constraints detailed in this Statement.
- Providing the Trustees with quarterly reports including any changes to their investment process and a review of the investment performance.
- Attending meetings with the Trustees as and when required.
- Informing the Trustees of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Fund as and when they occur.
- Exercising voting rights on shareholdings in accordance with their general policy.

Custodian

The custodians used are responsible for the safe-keeping of the Fund's assets.

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

Administrators

- The administrator's primary responsibilities are the day to day administration of the Fund and the submission of specified statutory documentation, as delegated by the Trustees.
- The Fund's administration is carried out by the in-house Pirelli administration team.

Signed on behalf of the Trustees of the Fund:

Name: Tony Goddard

Signature

A handwritten signature in blue ink, appearing to read 'Tony Goddard', written in a cursive style.

Date: 26/09/2019

Appendix 1– Fund Range and Objectives

Fund Options

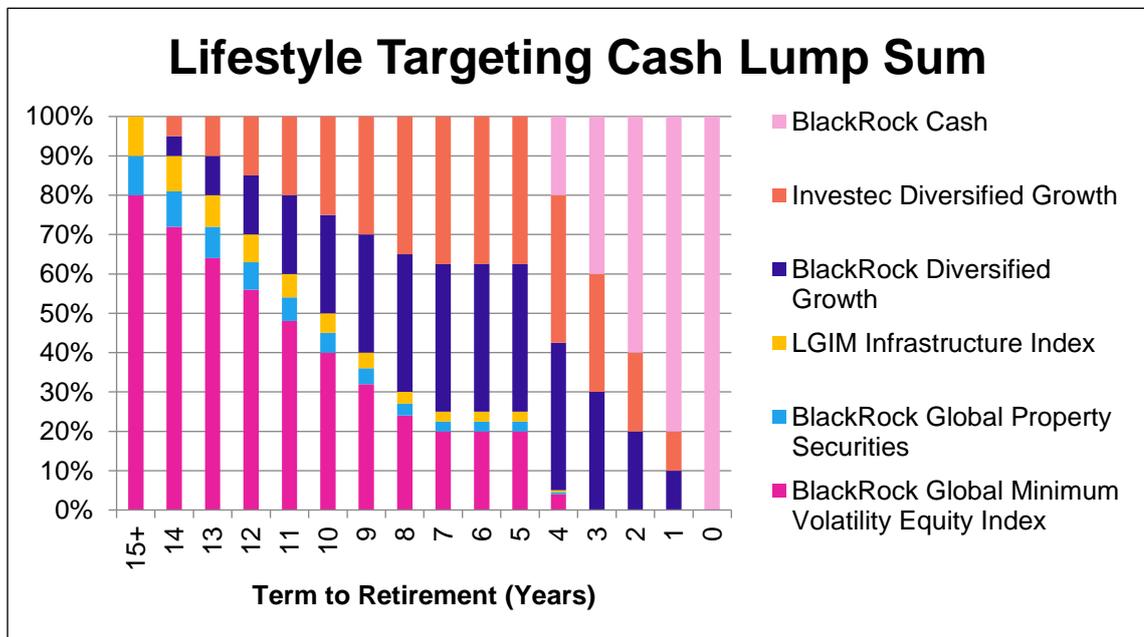
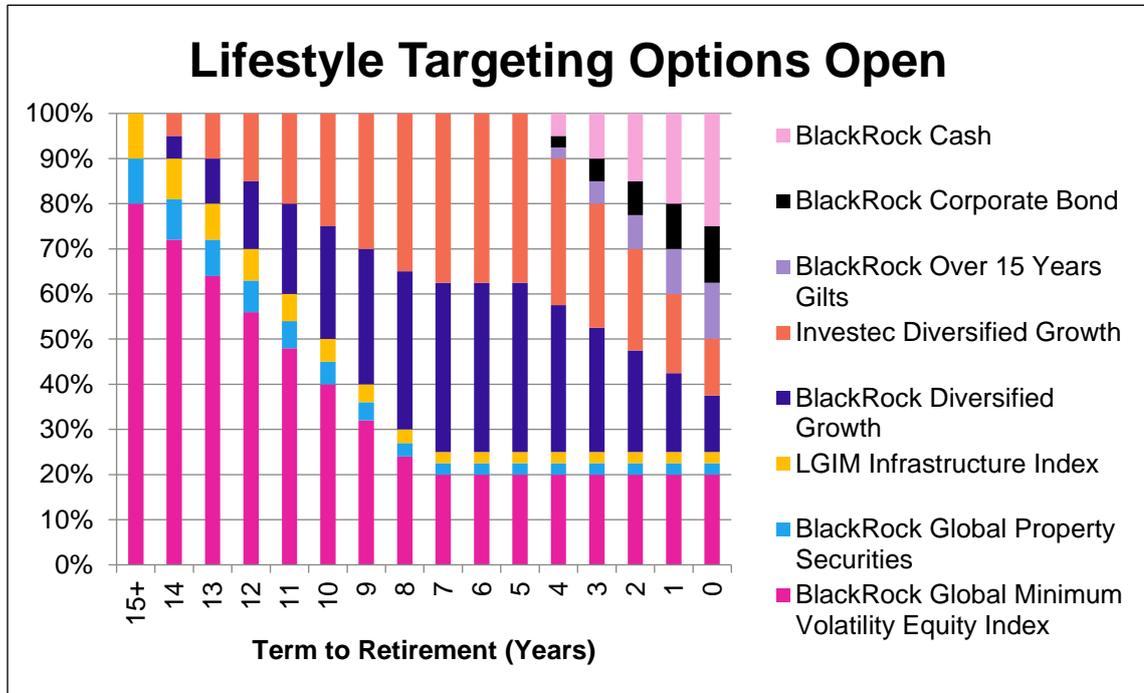
The funds available to members are detailed in the below table.

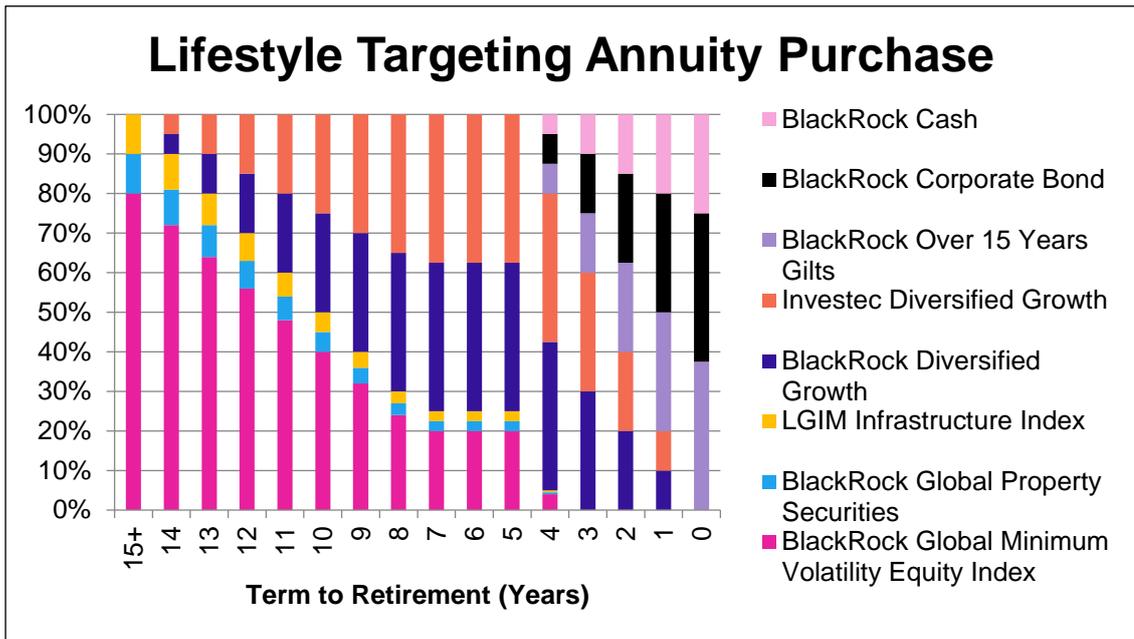
| Manager | Fund | Benchmark Index | Objective % p.a. |
|-----------------------|---|---|--|
| Default Lifestyle | Default Lifestyle Targeting Options Open Fund | N/A | N/A |
| Alternative Lifestyle | Alternative Lifestyle Targeting Annuity Fund | N/A | N/A |
| | Alternative Lifestyle Targeting Cash Fund | N/A | N/A |
| BlackRock | 70/30 Global Equity Index Fund | 70% FTSE All-Share Index and 30% ABI 40-85 Sector Index | To track the benchmark return |
| | Global Minimum Volatility Equity Index Fund | MSCI World Minimum Volatility Index | To track the benchmark return |
| | Diversified Growth Fund | Bank of England Base Rate | To outperform by 3.5% p.a. over rolling three-year periods |
| | Corporate Bond Fund | BofA ML Sterling Corporate Bond Index | To maximize total return |
| | Over 15 Years Gilt Index Fund | FTSE UK Gilts Over 15 Years Index | To track the benchmark return |
| | Over 5 Year Index-Linked Gilt Index Fund | FTSE UK Index-Linked Gilts Over 5 Years Index | To track the benchmark return |
| | Cash Fund | 7-Day Sterling LIBID | To produce returns in excess of its benchmark |
| LGIM | Ethical Global Equity Index Fund | FTSE4Good Global Equity Index | To track the benchmark return |
| | World Emerging Markets Equity Index Fund | FTSEAll-World Emerging Markets Index | To track the benchmark return |
| MFS | Global Equity Fund | MSCI £ World (Net Div) Index | To achieve capital appreciation, measured in US Dollars |
| Investec | Diversified Growth Fund | CPI | Provide real returns in excess of UK Inflation measured by the UK Consumer Price Index |

Lifestyle Strategies

The lifestyle strategies entail members' assets being switched between funds as they approach their target retirement date.

The lifestyle switching profiles used are shown below:





Members using these strategies are contacted prior to the commencement of the phasing period and given the option to switch to a more appropriate investment strategy should the lifestyle strategy selected no longer fit with their retirement plans.

Default Option

The default option for members who do not make an investment choice is for their funds to be invested into the options open lifestyle strategy.