Ferrero UK Limited Pension & Life Assurance Scheme (the "Scheme") Statement of Investment Principles (the "Statement" or "SIP")

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. A separate document, the Investment Policy Implementation Document ("IPID"), detailing the specifics of the Scheme's investment arrangements is available upon request.

The effective date of this Statement is May 2023. The Trustee will review this Statement and Scheme's investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

Consultations Made

The Trustee has consulted with the employer, Ferrero UK Limited (the "Company"), prior to writing this Statement and will take the Company's comments into account when they believe it is appropriate to do so.

The Trustee is responsible for the investment strategy of the Scheme. They have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Investments Limited, who are authorised and regulated by the Financial Conduct Authority.

The day-to-day management of the Scheme's assets has been delegated to investment managers, which are authorised and regulated by the Financial Conduct Authority. A copy of this Statement has been provided to the investment managers appointed, is available to the members of the Scheme and will be published on a publicly available website.

Objectives and Policy for Securing Objectives

The Trustee's primary objectives for setting the investment strategy of the Scheme are set out below:

- "Funding objective" - to ensure that the Scheme has sufficient assets available to pay members' benefits as and when they arise using assumptions set out in the technical provisions as defined by the Scheme Actuary.
- "Security objective" – to ensure that the solvency position of the Scheme (as assessed on a gilt basis) is expected to improve. The Trustee will also take into account the strength of the Company's ability to continue making contributions when determining their required expected improvement in the solvency position of the Scheme; and
- "Stability objective" – to have due regard to the Company's ability in meeting its contribution payments given their size and incidence, and to have due regard to the volatility of measures of funding and security.

The investment strategy chosen by the Trustee aims to maximise the likelihood of achieving these objectives. The Trustee recognises that these objectives may conflict. For example, a greater allocation to more defensive assets may give greater security, but may result in a level of contributions, which the Company may find too difficult to support. The Trustee also recognises that in resolving this conflict, it is necessary to accept some risk.

Choosing Investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cash flow requirements, the funding level of the Scheme and the Trustee's objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The Trustee exercises their powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within, and across, the major asset classes. Day to day selection of stocks is delegated to investment managers appointed by the Trustee. As regards the review and selection of their investment managers, the Trustee takes expert advice.

Assets held to cover the Scheme's liabilities are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level).

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counter party or other derivative operations.

The Balance Between Different Kinds of Investments

The Trustee recognises that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation.

They therefore retain responsibility for setting asset allocation and take expert advice as required from their professional advisers.

The Trustee reviews their investment strategy following each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). The Trustee takes written advice from their professional advisers regarding an appropriate investment strategy for the Scheme.

The asset allocation set out in the IPID was implemented after considering a review of the investment strategy in 2023. A range of available asset classes has been considered. The Trustee currently targets a mix of return seeking (or "growth") assets such as global Equities, global Fixed Income, and diversifying Alternatives, and matching (or "liability hedging") assets such as UK Governments bonds to meet the Scheme's objectives.

Investment Risk Measurement and Management

The key investment risks are recognised as arising from asset allocation. These are assessed at least triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustee takes advice on the continued appropriateness of the existing investment strategy.

The Trustee has considered the following investment related risks:

- Interest rate risk – the risk that the assets do not move in line with the value placed on the Scheme's liabilities in response to changes in interest rates;
- Inflation risk – similar to interest rate risk but concerning inflation;
- Credit risk – the risk that payments due to bond investors might not be made; and
- Equity risk – the risk that equity markets/values fluctuate.
- Currency risk – the risk that the value of the overseas assets change relative to the sterling based liabilities due to exchange rate fluctuations;

The Scheme does not borrow, apart from very short-term overdrafts to cover out-of-the market situations arising during manager transfers, in accordance with the European Pensions Directive. Pooled funds which the Scheme invests with may borrow to gain leveraged exposure.

Risks associated with changes in the Company covenant are monitored and assessed by the Trustee on a regular basis. The Trustee may make use of appropriate credit assessment providers in making this assessment. Additionally, under conditions of legal confidentiality, the Trustee has dialogue as and when appropriate with the Company over relevant issues. The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Company and its willingness to contribute appropriately to the Scheme. The financial strength of the Company and their perceived commitment to the Scheme is monitored annually and the Trustee will review the investment risk relative to the liabilities should either of these materially change.

The Trustee monitors the risks arising through the selection or appointment of fund managers in consultation with the Company. Expected deviation from the benchmark (for a passive manager) or out-performance target (for an active manager) is detailed in the IPID. The Trustee has appointed Aon Investments Limited to alert it on any matters of material significance that might affect the ability of each fund manager to achieve the objectives.

The Trustee acknowledges that investment returns achieved substantially outside the expected deviation (positive or negative) may be an indication that the investment manager is taking a higher level of risk than indicated.

Custody

Investment in pooled funds gives the Trustee a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the fund's assets.

The custodians are independent of the Company.

Expected Returns on Assets

Over the long-term the Trustee's expectations are for the assets to achieve a return which targets an expected return of Gilts +1.50% p.a. In so doing the Trustee is willing to incur short-term volatility in asset price behaviour.

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustee in consultation with their advisers and fund managers.

Realisation of Investments/Liquidity

Liquidity risk refers to the ease with which assets are marketable and realisable. The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

Responsible Investment: Environmental, Social, and Governance Considerations

The Trustee acknowledges that an understanding and consideration of environmental, social and corporate governance (ESG) factors (such as climate change) and risks related to these factors can contribute to the identification of financially material risks and investment opportunities.

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee expects that their investment managers will provide details of their activities and policy towards these areas on a regular basis and will monitor this with input from their investment consultant.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Trustee recognises that ultimately this protects the financial interests of the Scheme and its beneficiaries.

The Trustee regularly reviews the suitability of the Scheme's appointed investment managers and takes advice from their investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in the policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's investment managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Trustee will engage with the investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustee or the investment manager.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Member's Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact of investment, or present and future quality of life matters (defined as 'non-financial factors' in the 2018 Regulations).

The Trustee does not explicitly assess the social or environmental impact of their underlying investments as part of the Scheme's investment strategy but expects that the Scheme's investment managers will consider this as part of their delegated responsibilities in the selection, retention and realisation of investments.

Arrangements with Investment Managers

The Trustee monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies. This includes monitoring the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by the investment adviser.

The Trustee shares the policies, as set out in this Statement, with the Scheme's investment managers (relevant persons), and request that the investment managers review and confirm whether their approach is in alignment with the Trustee's policies (relevant matters).

Before appointment of a new investment manager, the Trustee review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express expectation to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial performance.

Where investment managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years.

Monitoring of Investment Manager Costs

The Trustee is aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their investment managers that can increase the overall cost incurred by their investments.

The Trustee collects annual cost transparency reports covering all of their investments and ask that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what it is paying investment managers.

The Trustee will only appoint investment managers who offer full cost transparency via the CTI templates to manage assets of the Scheme. This will be reviewed before the appointment of any new managers and includes the existing managers held by the Scheme.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Scheme's investment adviser monitors this on behalf of the Trustee as part of the manager monitoring, they provide to the Trustee and flags to the Trustee where there are concerns.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

The Trustee assesses the performance of investment managers on an annual basis and the remuneration of their investment managers on at least an annual basis via collecting cost data in line with the CTI templates.

Additional Voluntary Contributions ("AVCs") Arrangements

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. Details of the AVC provider is included in the IPID.

From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

Effective Decision Making

The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. The Trustee also recognises that where investment decisions are taken, the Trustee must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Therefore, all investment decisions are discussed by the Trustee with assistance from the Scheme's investment advisors before decisions are taken.

Agreed and approved by the Trustee of the Ferrero UK Limited Pension and Life Assurance Scheme