Pilkington Superannuation Scheme

Statement of Investment Principles

Effective date: August 2016

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Section 1: Introduction

1.1 This document is the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 ('the Act'), and the Occupational Pension Schemes (Investment) Regulations 2005 for the Pilkington Superannuation Scheme ('the Scheme'). It is issued by Pilkington Brothers Superannuation Trustee Limited as the Scheme's Trustee ('the Trustee') and is effective from the date of this statement superseding any SIP previously adopted.

1.2 The SIP is reviewed annually or after any significant changes to the investment policy.

1.3 In preparing this document, the Trustee has obtained and considered written advice on the content from the Scheme's Investment Consultant, Towers Watson Limited, and has consulted with Pilkington Group Limited ('the Employer').

Division of Responsibilities

1.4 The Trustee has ultimate responsibility and retains overall power for decision-making on investment matters. The Trustee's investment powers are set out in the Trust Deed and Rules (subject to the Act) and are not restricted to require the consent of the Employer.

1.5 The Trustee delegates some of its responsibilities:

i. The Trustee has established an Investment Committee ('IC'). The IC will make recommendations to the Trustee on investment-related matters. The Trustee may delegate power to the IC to decide specific issues on its behalf, as defined in the separate IC Terms of Reference (which may be changed by resolution of the Trustee).

ii. The Global Custodian is delegated responsibility (in relation to segregated assets) for safekeeping of assets, settlement of transactions, providing asset and cashflow statements, undertaking appropriate administration, processing dividends and tax reclaims and dealing with corporate actions. For pooled assets, the investment managers are responsible for the selection of suitable custodians.

iii. The Investment Consultant's responsibilities are detailed separately in the Engagement Letter, Terms and Conditions, regular consulting (retainer) letter and further correspondence relating to the scope of specific projects. Broadly, these responsibilities include advising the Trustee and IC on regulatory documentation, investment strategy advice, project work (such as liability hedging or de-risking) and selection/replacement of managers and/or custodians.

iv. The Scheme Actuary is responsible for performing valuations of the Scheme, as required, and liaises with the Investment Consultant on matters of investment strategy and funding updates for monitoring of the Scheme's de-risking strategy.

1.6 Advisors' fees are paid on either a time-cost, a fixed fee retainer or an individual project basis.

1.7 The pension scheme is registered under the Finance Act 2004.

Section 2: Objectives and long term policy

Objectives

2.1 The Trustee's primary responsibility with regard to the management of the Scheme's investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations of the Scheme as they fall due.

2.2 Having regard to this responsibility and the Trustee's obligations to manage the Scheme's investments, the Trustee's long term objectives are:

i. To maintain assets sufficient to meet all known liabilities plus some allowance to cope with increasing longevity.

ii. To achieve full funding relative to the Technical Provisions.

2.3 In order to achieve these objectives, the Trustee has agreed a funding plan with the Company and developed a consistent de-risking investment strategy. The Trustee and the Company have also agreed a Secondary Funding Target and a Final Funding Target, the detail of which is set out in the Memorandum of Understanding between the Trustee and the Company dated 19 March 2013 (and referred to in the Statement of Funding Principles).

2.4 The Scheme Actuary has confirmed that she will take into account the existence of both the Secondary Funding Target and the Final Funding Target when determining, under Clause 19 of the Trust Deed and Rules, whether or not the financial state of the Scheme will permit a Non-Statutory Increase (NSI) to be awarded. Under the Trust Deed and Rules, payment of any "catch-up" NSIs under Clause 17 can only be considered if the Scheme Actuary is able to certify that "there is a surplus of the Fund beyond the requirements of the Scheme".

2.5 The Trustee and the Company agree that security of members' guaranteed benefits is paramount and recognise that the scope for payment of NSIs under either Clause is unlikely to be considered by the Scheme Actuary until the Final Funding Target has been achieved and the De-risking Plan substantively completed.

Policy

2.6 In order to meet the Scheme's objectives, a full valuation of the Scheme will be performed no less frequently than every 3 years, using asset return assumptions developed by the Scheme Actuary. The Trustee will consider the asset allocation of the Scheme in the light of this valuation and a full asset-liability modelling ('ALM') study and revise the asset allocation and/or investment strategy, if necessary, with a view to achieving the Scheme's objectives.

2.7 The Trustee believes the assets of the Scheme to be suitable investments for the purposes of the Scheme, that those assets are appropriately diversified, and that there is a reasonable expectation of meeting the objectives in 2.1 and 2.2.

Additional Voluntary Contributions ('AVCs')

2.8 The Trustee will accept AVCs from members up to a maximum of 10% pensionable salary and allow each member to decide whether the amounts contributed are to be applied in the purchase of added years of pensionable service within the Scheme or invested on a money purchase basis with an external provider specified by the Trustee. All AVCs applied in the purchase of added years within the Scheme will form part of the common pool of investments and will not be identified separately. Benefits from added years AVCs are set out in rule 21 of the Trust Deed.

Section 3: Other investment policies

3.1 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed Investment Managers. The Investment Managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

3.2 The Trustee is not involved in the Investment Managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long term objectives, and an acceptable level of risk. As part of this process, the Trustee has delegated the detailed monitoring of the Investment Managers to its Investment Consultant.

3.3 The Trustee will receive appropriate investment advice (reconfirmed on a regular basis as determined by the Trustee) that the Scheme's investments are considered satisfactory and that the Investment Managers are carrying out their work satisfactorily, as defined by Section 36 of the Act for the Scheme's pooled investments and Section 34 of the Act for the Scheme's segregated investments.

3.4 The Scheme's assets are invested, directly or indirectly, in a range of asset classes which the Trustee considers to be suitable kinds of investment for the purposes of the Scheme, and the Trustee considers the assets held to cover the Scheme's liabilities to be invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme. Investments consist predominately of assets traded on regulated markets; any investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.

3.5 The Trustee may use, or permit the investment managers to use, derivative instruments if they contribute to a reduction of risk (including hedging against currency risk in the Scheme's assets and hedging interest rate, inflationary or longevity risk inherent in the Scheme's liabilities) or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk). A Liability Driven Investment ('LDI') approach has been implemented. The approach aims to hedge the inflation and interest rate risk of the Scheme using derivatives. The Trustee has considered the risks associated with the use of derivatives, as set out in Section 5.

3.6 Neither the Trustee nor any of the investment managers of segregated assets is permitted to borrow money (or to act as guarantors in respect of the obligations of another person) where the borrowing is liable to be repaid (or liability under a guarantee is liable to be satisfied) out of the assets of the Scheme; but this does not preclude borrowing made only for the purpose of providing liquidity for the Scheme and on a temporary basis. Nor does it preclude investment in leveraged pooled funds, subject to such limits and restrictions as the Trustee may lay down from time to time. Some short-term borrowing for settlement is also allowed, but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management). The Scheme's legal advisors have confirmed that the repurchase transactions do not represent "borrowing".

3.7 The assets of the Scheme must be properly diversified in such a way as to avoid reliance on any particular asset, issuer or group of undertakings and avoid excessive risk concentration in the portfolio as a whole.

3.8 Neither the Trustee nor the investment managers may hold any Employer-related investments, or investments in other global glassmaking companies, directly but the Trustee accepts that by participation in pooled funds there may be small indirect holdings but these would not amount to greater than 5% of Scheme assets.

Socially responsible investments and rights attached to investments

3.9 The Trustee recognises that environmental, social and corporate governance (ESG) factors can impact investment risk and return and, where investment style, resources and fund structure permit, encourages its investment managers to take such factors into account in the exercise of their delegated duties. The selection, retention and realisation of the Scheme's underlying investments will, where applicable, be delegated to the Investment Managers. Matters of corporate governance in general, and voting in particular, are integral parts of that delegation. The Trustee will monitor these engagements via annual active ownership reports, provided by the Investment Consultant.

3.10 The Trustee recognises the responsibilities of shareholders as owners of capital. Accordingly, the Trustee's objective as a shareholder is to achieve a high long-term return on the Scheme's investments by the preservation and enhancement of shareholder value, which the Trustee believes that good corporate governance promotes. The Trustee expects that, when selecting investments for purchase, retention or sale, social, environmental and ethical considerations may be among the factors considered.

3.11 The Trustee encourages the Investment Managers to (where practical) vote on all resolutions at annual or extraordinary general meetings of companies in which the Scheme invests. Investment Managers should exercise any voting power with the objective of preserving and enhancing long-term shareholder value.

3.12 The Trustee may request the Investment Managers provide ad-hoc reports and/or commentary on the overall impact of social, environmental and ethical considerations on investment management. The Trustee requires Investment Managers to report quarterly on corporate governance, and particularly on their voting record. The Trustee accepts that, in general, Investment Managers may often choose to support and vote with incumbent company management; therefore "exception reporting" is expected.

3.13 The Trustee has asked Investment Managers to report exceptions to the Stewardship Code. The Stewardship Code should be followed in so far as it is possible to do so without restricting the investment decisions being taken. Significant shareholder action other than voting against incumbent management (for example, the acceptance of a hostile take-over bid) should also be reported. An immediate report to the Trustee may be appropriate where an issue is particularly contentious or topical.

3.14 The Trustee itself has a Statement on the Stewardship Code which sets out its response to the Code. This Statement has been added to the FRC website and is available on request.

Liquidity and realisation of investments

3.15 The Trustee requires that an appropriate proportion of the Scheme's assets generally should be invested, directly or indirectly, in marketable investment instruments and that no more than 25% of the Scheme's assets shall be allocated to 'illiquid' holdings (where liquidity refers to the ability to sell an asset quickly without having to make a substantial price concession) such as property or reinsurance. The Scheme's benefit payments are not covered by contributions to it and there is a requirement to realise assets on a monthly basis to fund the pension payroll.

3.16 The Trustee delegates the realisation of individual investments to its external investment advisers. This includes investments that the continued holding of which would either be in breach of the principles contained in this SIP or any constraints within the relevant mandate documentation (for example investment manager agreement or prospectus).

IGG (or Myners) Principles

3.17 In the process of preparing this document, the Trustee has had regard to the IGG (Investment Governance Group) Principles (formerly called Myners Principles) as amended, in particular those relating to the SIP. The IGG (or Myners) Principles can be found in Appendix A. The Trustee recognises that compliance is voluntary but intends to comply where the Trustee considers this appropriate for the Scheme. The Trustee keeps under review the extent of compliance with the IGG (or Myners) Principles.

Section 4: Asset allocation policy

4.1 The Trustee regards its policy for asset allocation to be the factor which exerts the greatest influence over the likelihood of achieving its investment objectives. It believes that the control and monitoring of this policy contributes most towards minimising the risk of failure to achieve its objectives.

4.2 The Trustee has agreed a funding plan with the Company and developed a consistent de-risking investment strategy. Further details are set out in the Statement of Funding Principles and the Memorandum of Understanding between the Trustee and the Company.

De–risking plan

4.3 The Trustee and the Company have agreed a Secondary Funding Target and a Final Funding Target, the detail of which is set out in the Memorandum of Understanding between the Trustee and the Company dated 19 March 2013 (and referred to in the Statement of Funding Principles).

4.4 A De-risking Plan has been designed to achieve both the Secondary Funding Target and the Final Funding Target with a reasonable degree of confidence by the end of the targeted periods. The level of investment risk will be reduced under the De-risking Plan when the funding level on the Gilts Only Basis is ahead of expectations, allowing for the shortfall contributions in the Memorandum of Understanding. Re-risking will not occur, unless agreed between the Trustee and the Company. The De-risking Plan will be reviewed as part of each actuarial valuation.

Asset allocation and considerations

4.5 Current asset allocation has been determined in accordance with the target return required under the De-risking Plan. Please note that this is subject to change over time in accordance with the De-risking Plan.

4.6 The return-seeking assets held include (but are not limited to) global equities, property, listed infrastructure and reinsurance.

4.7 The liability matching assets include cash, global and UK corporate bonds, the Scheme's LDI portfolio and collateral for the Scheme's liability swaps transactions. The Trustee notes that the allocation to the LDI portfolio may include gilts, index-linked gilts and/or index-linked corporate bonds that have either an implicit/explicit government guarantee where these bonds offer a yield pick up over the equivalent index-linked gilts, cash, swaps and repurchase transactions. The Scheme also has a longevity swap agreement in place and has entered into a bulk purchase annuity contract to improve the degree of matching for a portion of pensioner liabilities not covered by the longevity swap agreement.

4.8 The IC, with advice from the Investment Consultant, can, where appropriate, take corrective action to rebalance the Scheme's assets to ensure the expected return and liability hedging ratio are maintained in line with the Scheme's investment strategy.

4.9 The IC reviews the performance of the Investment Managers on a quarterly basis. In addition, the Trustee meets with the Investment Managers, at least annually, to review performance. The Trustee uses the services of an independent performance measurement company to assess the Investment Managers' performance relative to the benchmark returns.

4.10 The Trustee has agreed fees with each Investment Manager based on the value of assets under management, the type of mandate and outperformance versus a relevant benchmark, where applicable. Details of the fee structures are included in the relevant Investment Management Agreements.

4.11 The Scheme's Investment Managers have been asked to advise the Trustee of any bundled brokerage and soft commission arrangements with their brokers.

Section 5: Risk management and compliance

5.1 The Trustee recognises that there are a number of risks involved with the investment of assets of, and contributions to, the Scheme.

Solvency risk and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
- are managed through assessing the progress of the actual growth of the assets relative to liabilities under the current investment policy.

Manager risk:

- is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- is managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment managers as well as a number of qualitative factors supporting the managers' investment process.

Liquidity risk:

- is measured by the level of cash flow required by the Scheme over a specified period.
- is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

Sponsor risk:

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability to a number of metrics reflecting the financial strength of the sponsor.

Currency risk:

- is measured by the level of concentration in any one country/region leading to an adverse influence on investment values arising from unfavourable currency movements.
- the Trustee has discussed, agreed and implemented currency hedging arrangements to address the Scheme's currency exposure.

Sustainability and Corporate Governance risk:

- are measured by the level of concentration in individual stocks leading to the risk of an adverse impact of investment values arising from corporate failure.
- are managed by reviews of stock concentration and discussions with the investment managers about sustainability risks.

Operational risk:

- is the risk associated with the safe keeping of the Scheme's assets
- is managed through a custody arrangement with a third party custodian for the segregated assets.

Custodian risk:

- is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the Scheme's segregated assets under custody.
- is managed by quarterly reports from the custodian on their performance relative to pre-agreed service levels.
- for the Scheme's pooled assets, the investment managers are responsible for the selection of suitable custodians.
- in addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.

Derivative risk:

- Counterparty risk - this risk is mitigated through the use of robust ISDA, GMRA or other relevant derivatives documentation, collateral management and diversifying exposure among a number of counterparties.
- Basis risk - the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustee for the backing assets and the investment managers' asset management capabilities.
- Liability risk - pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.
- Legal and operational risk - the successful operation of derivatives is dependent on compliance with the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustee takes appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.
- The Trustee is also aware of the risks relating to the initial terms of entry in derivative contracts (for example purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of its advisors, the Trustee monitors these positions on a regular basis.

5.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance.

5.3 The Trustee monitors, and will continue to monitor, these risks.

Appendix A: IGG (or Myners) Principles

In 2000, the Government commissioned Paul Myners to investigate the factors which were distorting the investment decision-making of UK institutions. As a result of this review, it was recommended that UK pension funds adopt investment principles (now called the IGG Principles) as best practice. These investment principles have since been amended and are detailed as follows:

Principle	Best practice guidance
The high level principles will be the accepted code of best practice throughout the industry in investment decision-making and governance. It is expected that trust boards will report against these on a voluntary 'comply or explain' basis.	Best practice guidance is intended to help trustees to apply the principles effectively. Trustees are not expected to implement every element of best practice. Rather trustees may use best practice examples where appropriate to help demonstrate whether compliance has been achieved.
Principle 1: Effective decision-making ■ Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. ■ Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	■ The board has appropriate skills for, and is run in a way that facilitates, effective decision-making. ■ There are sufficient internal resources and access to external resources for trustees and Boards to make effective decisions. ■ It is good practice to have an investment subcommittee, to provide the appropriate focus and skills on investment decision-making. ■ There is an investment business plan and progress is regularly evaluated. ■ Consider remuneration of trustees. ■ Pay particular attention to managing and contracting with external advisors (including advice on strategic asset allocation, investment management and actuarial issues).
Principle 2: Clear objectives ■ Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisors and investment managers.	■ Benchmarks and objectives are in place for the funding and investment of the scheme. ■ Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation. ■ Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates. ■ Consider the strength of the sponsor covenant.
Principle 3: Risk and liabilities ■ In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. ■ These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.	■ Trustees have a clear policy on willingness to accept underperformance due to market conditions. ■ Trustees take into account the risks associated with their liabilities valuation and management. ■ Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. ■ Trustees have a legal requirement to establish and operate internal controls. ■ Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

Principle	Best practice guidance
Principle 4: Performance assessment ■ Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. ■ Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.	■ There is a formal policy and process for assessing individual performance of trustees and managers. ■ Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings). ■ The chairman addresses the results of the performance evaluation. ■ State how performance evaluations have been conducted. ■ When selecting external advisors take into account relevant factors, including past performance and price.
Principle 5: Responsible ownership ■ Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles[1] on the responsibilities of shareholders and agents. ■ A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. ■ Trustees should report periodically to members on the discharge of such responsibilities.	■ Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles. ■ Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers. ■ Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company. ■ Trustees ensure that investment consultants adopt the ISC's Statement of Practice relating to consultants[2].
Principle 6: Transparency and reporting ■ Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. ■ Trustees should provide regular communication to members in the form they consider most appropriate.	■ Reporting ensures that: – the scheme operates transparently and enhances accountability to scheme members; and – best practice provides a basis for the continuing improvement of governance standards.

[1] The Stewardship Code was published by the Financial Reporting Council (FRC) in July 2010 and replaced the Institutional Shareholders' Committee (ISC) Statement of Principles.

[2] Best practice guidance for Principle 5 now states that "Trustees ensure that investment consultants adopt the ISC's Statement of Practice relating to schemes' agents." In fact, this phrase also formed part of the consultation document previously provided by the Government. During this consultation period, Towers Watson questioned the existence of the *ISC's Statement of Practice relating to consultants*. Towers Watson were informed by the NAPF that any reference to it was included in error and that all references should have referred to the ISC Statement of Principles on schemes' agents (fund managers or other voting agents). Towers Watson noted this error in their response to the Government consultation. Towers Watson will therefore wait for the Government's Investment Governance Group (IGG) to provide further clarification on this matter in due course.