Final version adopted by the Trustee with effect from September 2020, following a consultation with the employers

STATEMENT OF INVESTMENT PRINCIPLES

for the

THE PHILIP MORRIS GROUP PENSION PLAN

September 2020

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles?

This Statement of Investment Principles ("SIP") sets out the policy of the Philip Morris Group Pension Plan Trustees Limited ("the Trustee") on various matters governing decisions about the investments of the Philip Morris Group Pension Plan ("the Plan").

1.2. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Lane Clark & Peacock LLP, the Plan's investment adviser and actuaries, who the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments and the need for diversification, given the circumstances of the Plan and the principles contained in this SIP.

The employers with active members in the Plan were consulted on the SIP, however, the consent of these parties is not required to make any investments or determine the investment policy of the Trustee (nevertheless, the Trustee believes that better outcomes will generally be achieved if the Trustee and employers work together collaboratively). The Plan's investment manager is required to carry out its investment responsibilities in a manner consistent with this SIP.

A copy of the SIP is available to Plan members on request. The Trustee also ensures that the members receive communication regarding significant developments in investment strategy affecting the Plan.

1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 (as amended) (an extract of which are included as Appendix A) of the Pensions Act 1995 ("the

Act") and the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) ("the Regulations").

The Plan's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Plan's Trust Deed.

The Trustee is compliant as far as practical with the Government's investment principles.

2. What are the Trustee's overall investment objectives?

The primary objective of the Trustee's investment strategy is to ensure that sufficient assets are available to pay members' benefits as they fall due, taking into consideration the Trustee's understanding of the level of contributions that the employers wish to pay, their desire to take risk and their ability to make good any deficit arising.

On the basis of this consideration the Trustee sets an investment return objective, which is reviewed from time to time. The current investment objective is to achieve a return above that achievable on index linked gilts.

The Trustee is mindful that growth in the assets of the Plan can either come from investment performance or from company contributions, the latter being determined on the basis of the actuarial valuation. The Trustee will consider whether the investment objective remains appropriate in light of any changes to the valuation basis.

The Trustee set specific investment objectives for its investment manager. These are set out in Appendix D and in the agreements between the Trustee and its investment manager.

The Trustee has also taken into account the funding requirements detailed in the Occupational Pensions Scheme (Scheme Funding) Regulations 2005.

3. What risks does the Trustee consider and how are these measured and managed?

When deciding how to invest the Plan's assets, the Trustee considers a wide range of risks, including, but not limited to, those set out in Appendix B. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

4. Summary of the Plan's investment strategy

4.1. How was the investment strategy determined?

The Trustee, with the help of its advisers and in consultation with the employers, have reviewed the Plan's investment strategy taking into account the objectives described in Section 2 above.

4.2. What is the investment strategy?

In order to meet the Plan's investment objective the Trustee has adopted a Plan specific target asset allocation. However, the Trustee recognises that the asset allocation must be kept under review.

Following a review of investment strategy in 2020, the Trustee intends to maintain an allocation to equities of 20%, with the balance of the Plan's assets invested in government bonds.

Appendix D sets out further details of this strategy.

4.3. What did the Trustee consider in setting the Plan's investment strategy?

In setting the investment strategy, the Trustee considered:

- the Plan's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the risks and rewards of a number of possible asset allocation options and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Plan's overall level of investment risk and the balance of individual asset risks are appropriate; and
- the circumstances of the Plan, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength and the views of the sponsoring employers.
- the Plan's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

4.4. What assumptions were made about the returns on different asset classes?

The Trustee expects equities to outperform gilts and provide a return above inflation over the longer term.

The Trustee believes that the level of efficiency in most investment markets makes it difficult for active managers to add value. The Trustee has therefore decided to invest all the Plan's equity and bond assets in passive funds. The Trustee expects the return on each asset class to be in line with the index for the relevant fund.

5. Appointment of investment manager

5.1. How many investment managers are there?

The Trustee has decided to appoint one manager to manage the Plan's assets (in addition to the three AVC fund providers used by Plan members).

5.2. What formal agreements are there with investment managers?

The Trustee has signed investment management documentation with the investment manager setting out in detail the terms on which the portfolio is managed, including the need for suitable and appropriately diversified investment. Details of the investment manager and its investment benchmark and guidelines are given in Appendix D.

5.3. What does the investment manager do?

The investment manager's primary role is the day-to-day investment management of the Fund's investments. The manager is authorised under the Financial Services and Markets Act 2000 to carry out such activities.

6. Other matters

6.1. What is the Trustee's policy on the realisation of investments?

In choosing pooled investment vehicles (which may be structured as insurance policies) the Trustee will take into account the need to be able to realise investments when necessary to meet the Plan's liabilities as they fall due. In order to achieve this, the Trustee's policy is to invest the Plan's assets in generally marketable and liquid assets.

In general, the Trustee's policy is to use cash flows to rebalance the Plan's assets towards the strategic asset allocation.

6.2. Consideration of financially material and non-financial matters

The Trustee's primary consideration in formulating investment strategy is to act in the best financial interests of the beneficiaries of the Plan, and to seek the best return which is consistent with taking a level of risk commensurate with their investment objective.

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Plan.

The Trustee recognises that ESG factors can have an impact on financial performance.

The appointed investment manager's primary objective is to track the performance of a given index and is not driven / constrained in any way by social, environmental or ethical considerations in their selection, retention and realisation of investments.

However, the Trustee expects its investment manager to take account of financially material considerations (including climate change and other ESG considerations) when engaging with investee companies. The Trustee has limited influence over the managers' investment practices in this regard as assets are held in pooled funds.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

6.3. Voting and engagement

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

The Trustee has delegated to its investment manager the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment manager to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

6.4. What are the responsibilities of the various parties in connection with the Plan's investments?

Appendix E contains brief details of the respective responsibilities of the Trustee, the investment adviser and the investment manager. Appendix E also contains a description of the basis of remuneration of the investment adviser and the investment manager.

6.5. Does the Trustee make any investment selection decisions of its own?

Before making any investment selection decision of its own, it is the Trustee's policy to obtain written advice from its investment advisors, Lane Clark & Peacock LLP. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustee's policy to review its own investment selection decisions on a regular basis, based on written advice.

The Trustee is not authorised under the FCA to manage the Plan's assets. The Trustee delegates all stock selection decisions to their appointed investment managers and monitors the investment manager's activities in conjunction with their adviser.

7. Review

The Trustee will, from time to time, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

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Extract from the 1995 Pensions Act

The 1995 Pensions Act (sections 35 and 36) requires that the statement of investment principles covers the Trustee's policies:

- for ensuring that investments:
  - are appropriately diversified; and
  - are suitable, both as a kind and specifically;
- about the kinds of investments to be held, including;
  - the balance between different kinds of investments;
  - risk;
  - the expected return on investments; and
  - the realisation of investments;
- on the extent, if at all, to which they take account of social, environmental and ethical considerations in selecting, retaining and realising investments; and
- on the exercise of rights (including voting rights) attaching to investments.

The Trustee's policy towards risk, risk measurement and risk management

The Trustee has identified and considered the following investment risks in the context of the Plan's particular characteristics and the controls they have put in place to mitigate those risks:

Risk	Control
Inadequate long-term returns	Around 20% of the portfolio has been invested in equities which are expected to provide a return above that of gilts over the long-term.
Stock market underperformance relative to inflation	Around 50% of the portfolio has been invested in index linked gilts to provide most of the required inflation protection.
Extreme stock market fluctuations	Diversification across equity markets is expected to provide protection from falls in a specific stock market. In addition, substantial investment in bonds will dilute the impact of stock market falls.
Inadequate diversification: Across all the asset classes By holding excessive amounts of any one investment	The Trustee invests in a range of global asset classes. They are also mindful of stock concentration issues when selecting benchmarks.
Currency (the liabilities are all payable in sterling)	The majority of the assets held are denominated in sterling. The overseas currency exposure within investments held is diversified across a number of currencies. The Trustee monitors whether there is sufficient currency risk at the portfolio level to justify the costs of hedging.
Falling interest rates	The Trustee monitors cash flows in the short term and has considered the Plan's long-term cashflow requirements in setting their investment strategy. Bonds are held to provide some protection to the Plan funding level in times of falling interest rates. While these bonds have less interest rate sensitivity than the Plan's liabilities the Trustee has considered using swap based instruments in order to protect their interest rate exposure but deems these instruments to be too expensive to justify the protection they provide.

Environmental, social and governance (ESG)	Environmental, social and corporate governance (ESG) factors are sources of risk to the Plan's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance.
For members paying AVCs, volatile annuity rates	AVC members have the option to invest in bond funds that move broadly in line with annuity prices.
Geared or speculative investments using derivatives	No use of gearing or derivatives for speculative purposes is permitted in the funds in which the Plan invests.
The Plan is unable to realise assets to meet benefit cash flows as they fall due.	The Trustee's policy is to invest the Plan's assets in generally marketable and liquid assets.
The investment manager fails to meet its investment objective	The Trustee will review the performance of the investment manager on a quarterly basis. The Trustee, along with their investment adviser, meets its investment manager at least annually in order to raise with them any issues arising from their monitoring.

The Trustee recognises that there are other, non-investment, risks faced by the Plan. Examples include mortality risk (the risk that members live, on average, longer than expected), sponsor risk (the risk that, for whatever reason, the sponsoring employers are unable to support the Plan as anticipated) and litigation risk (the risk that legal action or activity results in a deterioration in the Plan's financial position or has other negative effects)

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Plan's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustee believes that they have addressed and are positioned to manage this general risk.

Plan appointments

Appendix C

The following advisers assist the Trustee:

Plan actuary

Jill Ampleford, FIA
Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

Investment adviser

Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

Plan Auditor

Mazars LLP
Times House
Throwley Way
Sutton
SM1 4JQ

Investment manager

State Street Global Advisors
20 Churchill Place
Canary Wharf
London
Greater London
E14 5HJ

AVC Providers

Santander
Phoenix Life
Legal and General Assurance Society

Bankers

NatWest

Legal advisor

Baker and McKenzie
100 New Bridge Street
London
EC4V 6JA

Administrators

Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

Group Death in Service Insurer

Legal & General Assurance Society Limited
Legal & General House
Kingswood
Tadworth
Surrey KT20 6EU

Investment management arrangements

The Trustee has selected State Street Global Advisors ("SSgA") as the investment manager for all of the Plan's assets. The Plan's current target asset allocation is shown in the table below:

Asset class	Target asset allocation
Equity	**20%**
UK Equity	10%
Overseas Equity	10%
Government bonds	**80%**
Index-Linked	50%
Conventional	30%
Total	**100%**

For overseas equities, SSgA invests the Plan's assets in a combination of underlying regional equity funds.

SSgA's investment objective is to track the total return of the relevant market index, after allowance for withholding tax where applicable, for each of the sector index funds in which the Plan is invested.

In the first instance, the Trustee will look to rebalance towards the 20% equity / 80% government bond allocation via the targeted application of cashflows out of the Plan. Additional one-off switches may also be carried out if deemed necessary by the Trustee.

Additional Voluntary Contributions ("AVCs")

The Trustee recognises that the needs of members holding AVCs will vary according to their attitude to risk, investment sophistication, time to retirement and other personal circumstances. The Trustee previously selected the following Funds into which members can pay AVCs:

Fund	Investment characteristics
Legal & General Assurance Society ***Passive fund option***	L&G offer members of the Plan a passive UK equity fund.
Phoenix Life ***With-profits fund option***	The with-profits fund is invested in both bonds and equities and aims to smooth the investment return over the longer term.
Santander ***Deposit based account***	A cash fund which offers security of capital over the short-term.

The Company took the decision with effect from 6 April 2006 to no longer allow Active Members to make Additional Voluntary Contributions to the Plan.

Responsibilities and fees

Appendix E

1. Responsibilities and investment decision-making structure

The Trustee has decided on the following division of responsibilities and decision-making for the Plan. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Plan overall, with access to an appropriate level of expert advice and service.

Trustee board members are not investment experts, and an investment subcommittee has not been established. They believe that extensive use of professional advisers mitigates this lack of expertise. Overall the Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities.

Investment and actuarial advice are currently provided by Lane Clark & Peacock LLP. The Trustee is prepared to pay sufficient fees for each service to attract a broad range of potential providers and would consider the merits of tendering investment and actuarial appointments separately if they were dissatisfied with their current advisor in either of these areas. If the Trustee requires advice on a specialist area they will consider whether their advisers are appropriately qualified in this area and may seek additional advice if it is felt appropriate.

1.1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy (eg any asset liability modelling exercise);
- if required, the policy for rebalancing between asset classes;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- appointing (and, when necessary, dismissing) the investment managers, the actuary and investment consultants;

- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employers when reviewing the SIP.

1.2. Investment manager

In broad terms, the investment manager will be responsible for:

- managing its portfolio, within the guidelines agreed with the Trustee;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

1.3. Investment consultant

The Trustee takes advice from their investment advisor but the Trustee has retained decision-making responsibility. At this time the Trustee has not put in place a documented approach to monitoring the advisor. In broad terms, the investment consultant will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustee in reviews of this SIP.

2. Mandates given to advisers and investment manager

The Trustee has in place signed agreements with each of the Plan's advisers and investment manager. These provide details of the specific arrangements agreed by the Trustee with each party.

The Trustee has limited influence over the investment manager's investment practices because all the Plan's assets are held in pooled funds.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. While the investment manager cannot fully align its strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover, this is not a material issue for the Plan as it invests on a passive basis.

It is the Trustee's ultimate responsibility to ensure that the investment manager's investment approach remains consistent with its policies, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate its investment managers by reference to the manager's individual performance as well the role it plays in helping the Plan meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. The investment manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment manager.

3. Remuneration and fee structures

Individual Trustee directors are paid a nominal amount for their role, and the employers support the board members by enabling them to carry out all of their trustee duties during company time.

The Trustee recognises that the provision of investment management, dealing and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets.

Investment consulting services are paid for on a time-cost basis although the Trustee would usually expect to agree indicative fees for specific pieces of work. The Trustee believes this is the most appropriate remuneration method because the level of advice required can be variable.

The investment manager is paid a fee, expressed as a percentage of the Plan's assets that includes investment management and custodian charges. Broker commission charges and other transaction services are paid in addition and are deducted from the funds under management. The fee rates are believed to be consistent with the manager's general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Plan. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.