A.S. Watson (Health & Beauty UK) Pension Plan

Statement of Investment Principles

September 2020

Introduction

This is the Statement of Investment Principles prepared by the Trustee of the A.S. Watson (Health & Beauty UK) Pension Plan (the "Plan"), the directors of which we will refer to as "the Trustee". This Statement sets down the principles governing decisions about investments for the Plan to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

In preparing this Statement the Trustee has consulted Superdrug Stores plc, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

This Statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

The Trustee will review this Statement at least every three years or if there is a significant change in the policy on any of the areas covered by the Statement.

The investment powers of the Trustee are set out in Clause 3 of the Definitive Trust Deed & Rules, dated 20 November 2013. This Statement is consistent with those powers.

Sections

The Plan consists of a Defined Benefit ("DB") Section and a Defined Contribution ("DC") Section.

Choosing Investments

The Trustee considers their Investment Objectives, shown in the appendices, when choosing appropriate investments for the DB Section and designing the range of investment options (Defaults and Self Select Funds) to offer to its members on the DC Section. The Trustee also acknowledges that DC Section members will have different attitudes to risk and different aims for accessing their retirement savings – and therefore, whilst seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of the Plan.

The Trustee's policy for the DB section is to set the overall investment target and then monitor the performance of their managers against that target. For the DC section, the Trustee's policy is to select suitable investment funds given the needs of the membership. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

The day-to-day management of the Plan's assets is delegated to one or more fund managers. The Plan's fund managers are detailed in the Appendices to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority or the Prudential Regulation Authority and are responsible for stock selection and the exercise of voting rights.

The Trustee reviews the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

Investment Objectives

The Trustee has discussed key investment objectives in light of an analysis of the Plan's liability profile (for the DB Section) and the Plan's membership profile (for the DC Section) as well as the constraints the Trustee faces in achieving these objectives. These are set out in the Appendices to this Statement.

The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities in the DB section at any time. The Trustee has obtained exposure to investments that they expect will meet the Plan's objectives as best as possible.

Kinds of investments to be held

The Plan can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Plan's auditors.

The balance between different kinds of investments

The Plan invests for the DB section in assets that are expected to achieve the Plan's objectives. The allocation between different asset classes is contained within Appendix 1.

DC section members can choose to invest in any of the funds detailed in Appendix 2 or can select to join the lifestyle strategy. Where members do not choose where to invest, they will be invested according to a default strategy, set by the Trustee, which is detailed in Appendix 2.

The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendices to this Statement.

From time to time the Plan may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the asset allocation of the DB and DC sections will be expected to change as the Plan's liability profile matures and the Plan's membership profile changes.

Risks

The Trustee has considered the following risks for the DB section of the Plan with regard to its investment policy and the Plan's liabilities:

Risk versus the liabilities The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Plan's Statement of Funding Principles.

Asset Allocation risk The asset allocation is detailed in Appendix 1 to this Statement and is monitored on a regular basis by the Trustee.

Fund manager risk The Trustee monitors the performance of each of the Plan's fund managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

Concentration risk Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares, securities or counterparties where appropriate.

Loss of investment The risk of loss of investment by each fund manager and custodian is assessed by the Trustee. Each fund manager monitors counterparty credit risk and evaluates counterparty credit quality on a regular basis.

Liquidity risk The Plan invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Plan's cash flow requirements. The Plan's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

Covenant risk The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

Solvency and mismatching Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Plan's funding basis.

Currency risk The Plan's liabilities are denominated in sterling. The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

In the DC section of the Plan, the investment risk lies with the members themselves, however the Trustee has also considered the risks set out above where they are relevant. The Trustee has considered a number of risks when designing and providing suitable investment choices to members. The main investment risks affecting all members in the DC Section are:

Inflation risk The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term real rate of return.

Conversion risk The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the lifestyle arrangement made available to members (see Appendix 2), the Trustee increases the proportion of assets that more closely match how they expect members to access their retirement savings. The Trustee keeps under review the appropriateness of the strategies.

Retirement income risk The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid (noting the Plan is closed to accrual). The Trustee periodically reviews the appropriateness of the investment options offered to ensure member outcomes can be maximised.

Investment manager risk The Trustee monitors the performance of the Plan's investment managers on a regular basis in addition to having meetings with them from time to time as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how the investment manager may operate.

Concentration/ Market risk Each investment manager is expected to manage properly diversified portfolios and to spread assets across a number of individual shares and securities.

Currency risk The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

Loss of investment The risk of loss of investment by the investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustee will also undertake a review of the internal controls and processes of each of the investment managers where necessary.

The risk associated with attempting to realise a desired investment return on each individual member's funds should be:

- taken into account by the individual members when deciding in which investment vehicles to invest;
- minimised by the fund managers of each fund subject to their investment mandate;
- taken into account by the Trustee when setting the lifestyle strategy and default strategy, and in particular might include:
    - the risk of inflation eroding the real value of benefits;
    - the risk of the value of a member's pension fund being volatile.

Expected return on investments

For the DB section the Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The day-to-day selection of investments is delegated to the fund managers.

The Trustee chooses a range of funds in order to allow members of the DC section to achieve appropriate desired returns and risk. The Trustee selects managers for the DC section based upon their perceived ability to achieve the aims of their funds. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts.

In addition for the DB section:

The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

Realisation of investments

The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above. Ultimately, the investments will all have to be sold when the life of the DB section comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Plan accounts. The Trustee has considered the rights of members of the DC section to switch between funds and to disinvest on retirement, or for other permitted reasons. The Trustee has selected investment vehicles which permit the realisation of holdings at relatively short notice.

Socially Responsible Investment, Corporate Governance and Voting Rights

The Trustee has set policies in relation to these matters and these are set out in Appendix 3.

Monitoring

Investment Performance: The Trustee reviews the performance of each fund/investment option against the stated performance objective and, in doing this, the Trustee receives a performance monitoring report on a regular basis. This monitoring takes into account both short-term and long-term performance.

The investment managers' overall suitability for each mandate will be monitored as frequently as the Trustee considers appropriate in light of both its performance and other prevailing circumstances. The Trustee meets the Plan's fund managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

Objectives:

- DB Section: The Trustee monitors the overall strategy, taking into account market conditions and the Plan's funding position.
- DC Section: The Trustee monitors the suitability of the objectives for the Plan (as detailed in Appendix 2) and performance (net of fees) against these objectives at least every three years and also when there is any significant change in the investment policy, underlying economic conditions or the profile of the members.

Agreement

This Statement was agreed by the Trustee, and replaces any previous Statements. Copies of this Statement and any subsequent amendments will be made available to the employer, the fund managers, the actuary and the Plan auditor upon request.

Appendix 1 - Note on investment policy of the Plan's DB section as at September 2020 in relation to the current Statement of Investment Principles

The balance between different kinds of investment

The Trustee's main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the above objectives.

The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities in the DB section at any time. The Trustee has obtained exposure to investments that they expect will meet the Plan's objectives.

Choosing investments

The Trustee has appointed the following fund managers to carry out the day-to-day investment of the Plan's DB section:

- Vanguard Investments UK, Limited and Vanguard Group (Ireland) Limited accessed via Aberdeen Standard;
- Schroder Pension Management Limited;
- Barings Asset Management Limited;
- Muzinich & Co. Limited;
- Insight Investment Management (Global) Limited;

The fund managers are authorised and regulated by the Financial Conduct Authority, the Prudential Regulation Authority or the appropriate regulatory body in their jurisdiction.

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham is remunerated on a time cost or fixed fee basis as appropriate. There are fee arrangements in place with the fund managers. Additional fund expenses may also be payable for each fund.

The Trustee has contracts with Prudential, Baillie Gifford, and Legal and General for the receipt of members' Additional Voluntary Contributions. The arrangements are reviewed from time to time.

Kinds of investments to be held

The Trustee has considered all asset classes and have gained exposure to a range of asset classes through the Plan's investment in the diversified growth funds and the LDI fund range, including (but not limited to):

- Equities;
- Bonds;
- Cash;
- Property;
- Swaps;

- Derivatives.

The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Plan's liability profile, funding position, expected return of the various asset classes and the need for diversification.

The investment benchmarks and objectives for each fund manager are given below:

Fund manager	Benchmark	Objective
Vanguard		
SL Vanguard FTSE Developed World ex UK Pension Fund	FTSE Developed ex-U.K. Index	To track the performance of the index.
SL Vanguard FTSE Developed World Hedged Pension Fund	FTSE Developed Index in GBP	
Schroder		
Diversified Growth Fund	Consumer Price Index	To outperform the benchmark by 5% p.a. (gross of fees) over a market cycle (typically 5 years).
Barings		
Dynamic Asset Allocation Fund	3 Month GBP LIBOR	To outperform the benchmark by 4% p.a. (net of fees).
Muzinich		
Global Tactical Credit Fund	3 Month GBP LIBOR	To outperform the benchmark by 3-5% p.a. (gross of fees) over a market cycle.
Insight		
Liability Driven Investment Funds	Liability benchmark based on the Plan's actuarial valuation cashflows	To provide liability hedging by offering interest rate and inflation protection
Sterling Liquidity Plus Fund	3 Month LIBID	To provide investors with stability of capital and income through investment in short-term fixed income and variable rate securities.
Global ABS Fund	3 Month GBP LIBOR	To outperform the benchmark by 2% p.a. (gross of fees) over rolling 3-year periods.

The performance of the fund managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The Plan has an approximate long-term strategic asset allocation as set out in the table below. The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

Fund	Approximate target allocation
Vanguard equity funds*	7%
Schroder Diversified Growth Fund	18%
Barings Dynamic Asset Allocation Fund	18%
Muzinich Global Tactical Credit Fund	17%
Insight Global ABS Fund	10%
Insight Liability Driven Investment Funds and Sterling Liquidity Plus Fund**	30%
Total	**100%**

* The equity split is broadly half currency-hedged back to GBP.

** The allocation to the LDI funds is such that the Plan has hedged c.95% of the interest rate and inflation risk on the Plan's liabilities a Technical Provisions basis. Note that whilst the Plan is not 100% funded, the level of hedging as a percentage of the liabilities is lower.

In the event of a re-leveraging event for the Insight LDI funds, any call for additional funds (not met by the Liquidity Plus Fund) would first come from the Global ABS Fund. In the event of a re-collateralisation event for the Insight LDI funds, the proceeds will generally go into the Sterling Liquidity Plus Fund or the Global ABS Fund.

Investment of new money

New money is usually invested to rebalance the overall asset allocation towards its long-term strategic asset allocation.

Realisation of investments

If the Trustee is required to carry out disinvestments to meet the Plan's cash flow requirements then these will typically be made so as to move the overall asset allocation towards its long-term strategic asset allocation.

Appendix 2 - Note on investment policy of the Plan's DC section as at September 2020 in relation to the current Statement of Investment Principles

The balance between different kinds of investment

The Trustee's main investment objectives are:

- to offer a suitable default option for members who elect not to make an individual investment choice;
- to offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives.

The Trustee is responsible for the design of the default investment option and for choosing which investment options to make available to members. Members are responsible for their own choice of investment options (including where the default investment option is selected for them because they have not selected other funds).

The Trustee has made available a range of funds to suit the individual needs of the Plan's members ("Self Select Funds") wanting to manage their own asset allocation decisions. The Trustee has considered potential asset classes and provided potential exposure to those detailed in this Statement.

Alternatively, the Trustee has made available two Lifestyle Options (one open to all members and one made available to certain members in March 2018). These are designed to help manage members' pension investments for the duration of their membership of the Plan for those who want their pension pot to follow a pre-set investment approach with an asset allocation that is managed for them. However, members should ensure that this investment option is appropriate to their individual circumstances and retirement needs.

Under a Lifestyle option, their pension pot will be automatically moved between investment funds according to how long they have until they plan to retire, i.e. the period until their Target Retirement Age. As such, these arrangements may be more suitable for individuals who prefer not to take an active role in managing their own pension investments using the Self Select investment options.

Both of the Lifestyle Arrangements seek to achieve higher long-term investment returns when members are a long way from their Target Retirement Age by investing in equities. As they move closer to their Target Retirement Age, investments automatically switch into a blend of assets that is expected to be a suitable investment strategy for a typical member that wishes to receive certain types of benefits:

- Cash Lifestyle Investment Strategy – targeted at members taking all their pension pot as a cash lump sum at retirement
- Annuity Lifestyle Investment Strategy - targeted at members purchasing an annuity at retirement (taking part of their pension as a tax free cash lump sum).

Default option(s)

The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a single investment option that will be suitable for each individual member. However, having analysed the Plan's membership profile, the Trustee decided that the lifestyle arrangement(s) set out below represent suitable default investment options for the majority of members who do not make a choice about how their pension pot is invested, taking into account:

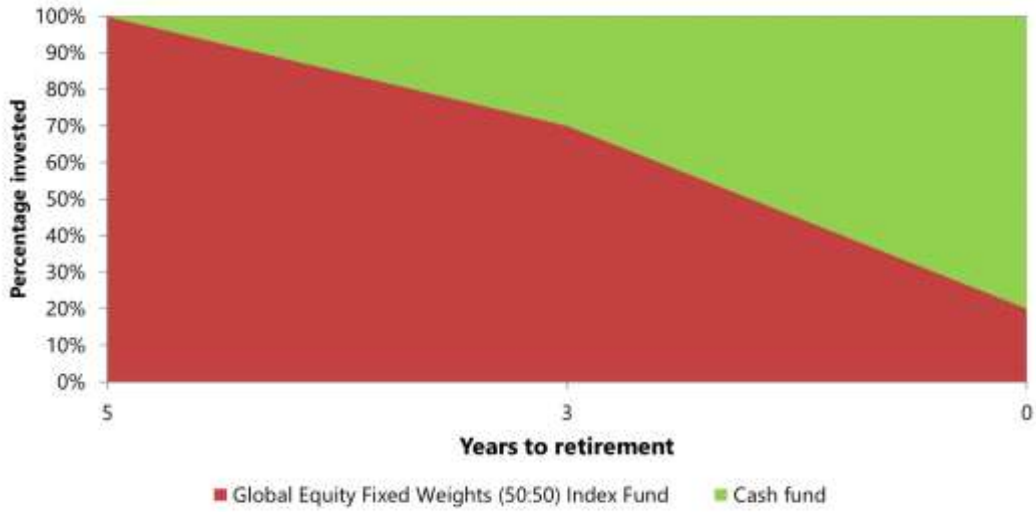
- Kinds of investments to be held;
- The balance between different kinds of investments;
- Investment risks;
- Expected return on investments;
- Realisation of investments;
- Socially Responsible Investment, Corporate Governance and Voting Rights.

The aims, objectives and policies relating to the default option are intended to ensure that assets are invested in the best interests of relevant members and their beneficiaries. Further information on the Trustee's policies in regard to the default options are detailed in the main body of this statement.

The Default Fund is the **Cash Lifestyle Investment Strategy** for all members that were over 5 years of their Target Retirement Age at 29 March 2018 and invested in the previous Lifestyle Arrangement that was in place before that date. For members that were within 5 years of their Target Retirement Age at 29 March 2018 and invested in the previous Lifestyle Arrangement that was in place before that date, the Default arrangement for these members is the **Annuity Lifestyle Investment Strategy** and they are invested in this unless they made an active decision to invest elsewhere. The statements made in the main body of this Statement of Investment Principles also apply to the default arrangements.

Cash Lifestyle Investment Strategy

The Trustee has chosen the asset mix of this arrangement following advice from their professional investment advisors. The membership analysis of the Plan concluded that given the expected pot size of members at retirement, the average member would be expected to be planning to take their pension as a cash lump sum at retirement. The asset mix of this strategy was chosen as a reasonable one for a member wishing do this - the Cash Lifestyle Investment Strategy gradually switch members' investments from equities into predominantly a cash fund over time. The broad allocation of the strategy over the period to the member's Target Retirement Age is given below.



The funds used in the Cash Lifestyle Investment Strategy investment strategy are described briefly below.

Global Equity Fixed Weights (50:50) Index Fund	The fund invests 50% in UK equities and 50% in overseas equities. The Fund's overseas asset distribution is fixed with 17.5% in North America, 17.5% in Europe (ex-UK), 8.75% in Japan and 6.25% in Asia Pacific (ex-Japan). The fund is passively-managed by Legal and General Investment Management, meaning the manager is aiming to provide returns in line with the respective geographical equity indices.
Cash Fund	The fund is managed by Legal & General Investment Management and invests in cash and short-term cash-like instruments. The fund aims to offer stability and to provide capital preservation.

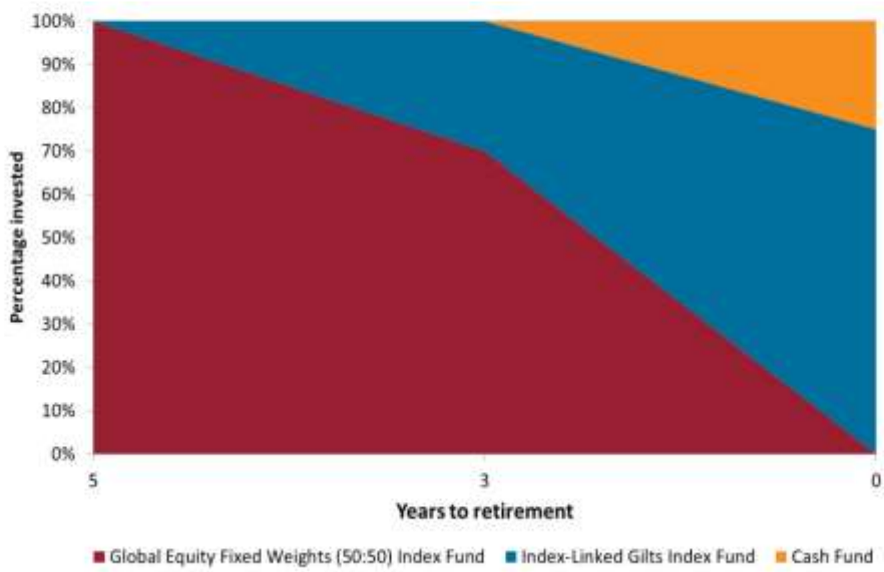
Annuity Lifestyle Investment Strategy

The Annuity Lifestyle Investment Strategy is the strategy that was previously available to members prior to 29 March 2018. The Annuity Lifestyle Investment Strategy is designed for those members who plan to buy an Annuity (pension), taking up to 25% of the value of their pension pot as a cash sum at retirement. The Trustee believes that this is an appropriate default for members that were within 5 years of their Target Retirement Age at 29 March 2018. This is because, based on their Target Retirement Age they would be less than five years away from retirement and are therefore likely to have already begun planning to purchase an annuity given that this is what the Lifestyle Arrangement they have been invested in up until this point was designed for.

In the period to March 2018, members within 5 years of Target Retirement Age were given the option whether to remain in the Annuity Lifestyle Arrangement or move to the Cash Lifestyle Investment Strategy. Members who moved to the Cash Lifestyle Investment Strategy can no longer choose to move back. This option was not available to members over 5 years of Target Retirement Age at 29 March 2019 in a Lifestyle Arrangement or Self Select members.

The Trustee has chosen the asset mix of this arrangement following advice from their professional investment advisors. This asset mix was chosen as a reasonable strategy for the average member who is targeting buying an annuity at retirement, progressively switches into a mix of assets that is aimed at protecting against significant falls in annuity purchasing power in the years immediately before retirement and match the maximum 25% cash lump sum that members are expected to take at retirement. There is no guarantee, however, that the asset mix will protect members completely.

The funds used in the Annuity Lifestyle Investment Strategy are the same as those used in the Cash Lifestyle Investment Strategy, with the addition of the LGIM Index-Linked Gilts Index Fund. However, the Option has a different automatic switching profile, which is shown in the graph below.



Kinds of investments to be held

The Trustee has considered all asset classes and has gained exposure to the following asset classes (including exposure within the Multi-Asset (formerly Consensus) Fund and the Managed Fund):

- UK Equities;
- Overseas Equities;
- Fixed Interest Gilts;
- Index-Linked Gilts;
- Corporate bonds;
- Cash;
- Other alternative asset classes.

Self Select investment options

Acknowledging the challenge of identifying the best solution for different groups of members, and in focusing on its key objective, the Trustee has concentrated on providing appropriate Lifestyle options to members. They have also made available a range of individual investment funds available through the Plan that have been carefully selected by the Trustee, following advice from their professional investment advisors. The funds offered give members the opportunity to be more involved in managing their pension investments and allow them to design an investment strategy to suit their needs.

Each of the investment funds available through the Plan has a different aim or target and as such can focus on different asset classes and geographical regions. Members should be aware that each asset class carries alternative risks which will have an impact on the volatility of their pension value. Members should ensure that they regularly review their investment options to ensure they continue to be appropriate for their needs.

Members can invest in one or any number of the Self Select investment funds available through the Plan and have the option to switch between funds at any time. Members have flexibility to select their allocation to any of these funds.

The Trustee has appointed the following fund managers to carry out the day-to-day investment of the Plan's DC section:

- Legal & General Investment Management Limited;
- Baillie Gifford & Co.

The fund managers are authorised and regulated by the Financial Conduct Authority or the Prudential Regulation Authority.

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters. The table below sets out the mandates given to the Plan's managers and the corresponding performance target for each fund. Members have flexibility to select their allocation to any of these funds:

Fund manager	Benchmark	Objective
Legal & General		
Multi-Asset (formerly Consensus) Fund	n/a	To provide long-term investment growth through exposure to a diversified range of asset classes excluding physical property.
Global Equity 50:50 Index Fund	Composite of 50/50 distribution between UK and overseas	To provide a diversified exposure to the UK and overseas equity markets
UK Equity Index Fund	FTSE All-Share Index	To track the sterling total return of the benchmark to within +/- 0.25% p.a. (gross of fees) for two years out of three
AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund	FTSE A Government 15-35 Year Index	To produce a return in line with the benchmark and capture the yield spread over gilts of AAA-AA rated fixed interest securities
Over 5 Year Index-Linked Gilts Index Fund	FTSE A Index-Linked (Over 5 Year) Index	To track the sterling total return of the benchmark to within +/-0.25% p.a. (gross of fees) for two years out of three
Cash Fund	7 Day LIBID	The Fund aims to perform in line with 7 Day LIBID, without incurring excessive risk.
Baillie Gifford		
Managed Fund	Investment Association (IA) Mixed Investment 40-85% Share Sector Median	To produce superior returns over time
UK & Worldwide Equity Fund	Composite of 60% FTSE All Share Index and 40% of an Overseas Composite based on the corresponding FTSE Indices for America and Europe and MSCI Indices for Developed Asia Pacific and Emerging Markets	To outperform the benchmark by 1-1.5% p.a. (gross of fees) over three year rolling periods
UK Equity Core Fund	FTSE All-Share Index	To outperform the benchmark by 1-1.5% p.a. (gross of fees) over three year rolling periods

The performance of the fund managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

Fee agreements

There are fee arrangements in place with each of the fund managers. Additional fund expenses may also be payable for some funds.

The Trustee reviews these charges periodically as part of the Value for Money assessments. Barnett Waddingham is remunerated on a time cost or fixed fee basis as appropriate.

Appendix 3 - Socially Responsible Investment, Corporate Governance and Voting Rights

The Trustee has received training from their investment advisors to consider the financial materiality of environmental, social and governance issues, including climate change (referred to together as "ESG issues") within their investment strategy. The Trustee considered the research findings presented at this training to form their views on the financial materiality of ESG factors as they apply to the Plan's current investments.

The Trustee is comfortable that the Plan's current investments are managed in accordance with their views on financially material factors, as set out below. This position is monitored periodically, at least annually. In the future, the views set out below will be taken into account when appointing and reviewing managers.

The Trustee believes that ESG factors are financially material – that is, they have the potential to impact the value of the members' investments from time to time. The Trustee appreciates that the extent and method of incorporating ESG within an investment strategy and process will differ between asset classes.

The Trustee has not considered it appropriate to take into account individual members' views when establishing the policy on ESG factors, engagement and voting rights.

Policy for taking into account non-financial matters

The Trustee does not consider any non-financial matters (such as ethical views) when setting the investment strategy and/or when selecting or reviewing fund managers.

In particular, the Trustee does not take account of non-financial matters (such as member ethical views) within the default investment strategy for the DC section.

Policy for taking into account ESG factors

The views of the Trustee on ESG factors are considered separately for each asset class the Plan is invested in:

DB Section

- **Passive equities** – the Trustee accepts that when investing passively in equity index tracker funds, there is little that the manager can do within the investment process selecting stocks. However, the Trustee believes that positive engagement on ESG issues can lead to improved risk-adjusted returns. Therefore, the Trustee looks to the passive equity manager to positively engage with companies where there is scope to improve the way ESG issues are taken into account when running the company.

- **Diversified growth funds** – the Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's multi-asset fund managers. The investment process for each multi-asset fund manager should take ESG into account in the selection, retention and realisation of investments.

  The Trustee also supports engagement activities and, where relevant, the exercise of rights attaching the investments by the Plan's multi-asset fund managers. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

- **Credit** – the Trustee believes ESG issues should be considered in a manager's investment process as they have the ability to materially impact risk-adjusted returns. The Trustee recognises that fixed income assets do not include voting rights, however, support engagement from their managers to identify ESG risks and opportunities. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

- **LDI and money market** – the Trustee believes there is often less scope for ESG issues to improve risk-adjusted returns in these asset classes because of the high level of exposure to government bonds within the Plan's LDI holdings; and the short-term nature of the assets within money market funds.

  It is worth noting that when transacting in LDI and money market funds, the Trustee requires due diligence is undertaken to assess the credit worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustee believes this is more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

DC Section

- **Passive equities** – the Trustee accepts that when investing passively in equity index tracker funds, there is little that the manager can do within the investment process selecting stocks. However, the Trustee believes that positive engagement on ESG issues can lead to improved risk-adjusted returns. Therefore, the Trustee looks to the passive equity manager to positively engage with companies where there is scope to improve the way ESG issues are taken into account when running the company.

- **Active equities** – the Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's active equity managers. Through ESG, proxy voting and engagement, the Trustee looks to the manager to promote long-term sustainable growth for all of their investments. The Trustee believes that each analyst and manager is expected to consider and implement ESG considerations throughout the investment process.

- **Multi asset funds** – the Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's multi-asset fund managers. The investment process for each multi-asset fund manager should take ESG into account in the selection, retention and realisation of investments. Further to this, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

- **Passive corporate bonds** – the Trustee accepts that when investing passively in corporate bond funds, there is limited scope for the manager to take ESG considerations into account during the investment process of selecting securities. The Trustee recognises that fixed income assets do not typically include voting rights; however, the Trustee supports engagement from their managers to identify ESG risks and opportunities. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

- **Passive gilts and money market** – the Trustee believes there is often less scope for ESG issues to improve risk-adjusted returns in these asset classes because of the high level of exposure to government bonds within the Plan's gilt holdings; and the short-term nature of the assets within money market funds.

Selecting the default strategy

The default strategy chosen by the Trustee is a lifestyle arrangement. The Trustee is comfortable that the manager currently used by the Plan for this purpose is appropriate given their views on financially material factors, as set out above.

The Trustee is cognisant that members will have different investment horizons. Further, the Trustee believes that ESG issues may be more important for members with a longer investment horizon (i.e. who are further from retirement) because the financial materiality of ESG could be greater over a longer timeframe.

The Trustee will review the way in which their investment managers incorporate ESG factors into their investment process periodically and report on this annually in line with the relevant legislation.

Stewardship

Stewardship encompasses the exercise of rights (including voting rights) attaching to the Plan's investments, and the engagement by and with investment managers.

The Trustee believes that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns. The Trustee delegates responsibility for stewardship activities attaching to the Plan's investments to its investment managers. Managers are expected to exercise voting powers with the objective of preserving and enhancing long term shareholder value. In addition to the exercise of voting rights, managers are expected to engage with key stakeholders (which may include issuers of debt or equity, corporate management, regulators and governance bodies) relating to their investments in order to improve corporate behaviours and governance, improve performance, improve social and environmental impact and to mitigate financial risks.

The Trustee has ensured that the beliefs they have pertaining to all financially material considerations and stewardship, including engagement and exercising voting rights, align with the investment strategy. In selecting and reviewing their investment managers, where appropriate, the Trustee will consider the investment managers' policies on engagement (including exercise of voting rights) and how these policies have been implemented. An investment manager's excellence in this area may but does not have to take precedence over other factors, including (but not limited to) historical performance or fees.

The Trustee will ensure that the investment managers monitor the investee companies' capital structure as follows:

- When delegating investment decision making to their investment managers the Trustee provides managers with a benchmark they expect the managers to either follow or outperform. Subject to the restrictions of their mandate, the investment manager may have discretion over where in an investee company's capital structure it invests, whether directly or through a pooled fund or derivative.

- The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities and therefore that they apply to different assets, including equity, credit and property. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

- The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Plan or as part of the pooled fund in which the Plan holds units. The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Plan. Where the Trustee uses pooled funds the Trustee expects the investment manager to employ the same degree of scrutiny as if it were a direct investment of the Plan.

Conflicts of Interest

The Trustee will monitor actual and potential conflicts of interest policy in relation to their engagements as follows:

- The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

- The Plan's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflicts of interest.

UN Principles of Responsible Investment and UK Stewardship Code

Before considering any new mandate, the Trustee will require the manager to be a signatory to the United Nations supported Principles for Responsible Investment (PRI). At time of writing, all of the Plan's investment managers are PRI signatories where applicable.

The Trustee is supportive of the UK Stewardship Code published by the Financial Reporting Council and expects the Plan's investment managers to have corporate governance policies in place which comply with these principles. The Trustee will review the signatory status of its managers following anticipated revisions to the UK Stewardship Code in 2019.

The Trustee is comfortable that all of the investment managers are managing the respective funds with ESG and stewardship taken into account appropriately for that particular asset class and within applicable guidelines and restrictions.

Policy on arrangements with asset managers

Alignment of investment strategies with investment policies

The Trustee will ensure that the arrangements with the investment managers incentivise the investment managers to align their investment strategy and decisions with the Trustee's investment policies as follows:

- Prior to appointing an investment manager, the Trustee discusses the investment manager's benchmark and approach to the management of ESG and climate related risks with the Plan's investment consultant, and how they are aligned with the Trustee's own investment aims, beliefs and constraints.

- When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to achieve the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will use another manager for the mandate.

- The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.In the event that the investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustee.

- Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

- The Trustee carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Plan and their aims, beliefs and constraints.

Time horizon for making decisions and engagement

The Trustee will ensure that the arrangements with the investment managers incentivise the managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term as follows:

- The Trustee is mindful that the impact of ESG and climate change may have a long-term nature. The Trustee recognises that the potential for change in value as a result of ESG and climate risk, may occur over a much shorter term than climate change itself. The Trustee has acknowledged this in their investment management arrangements.
- When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over an agreed predetermined rolling timeframe. The Trustee believes the use of rolling timeframes, typically three to five years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this to be sufficient to ensure an appropriate alignment of interests.
- The Trustee expects investment managers to be voting and engaging on behalf of the fund's holdings and the Plan monitors this activity within the Implementation Statement in the Plan's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

Manager performance and remuneration

The Trustee will ensure that the method (and time horizon) of the evaluation of the investment managers' performance and the remuneration for investment management services are in line with the Trustee's investment policies as follows:

- The Trustee monitors the performance of their investment managers over the medium to long term (typically 3 to 5 years or longer) in a way that is and consistent with the Trustee's investment aims, beliefs and constraints.
- The Plan invests solely in pooled funds. The investment managers are remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. Details of the fee structures for the Plan's investment managers are contained in the appendices.
- The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short-term dips in performance significantly affecting their revenue.
- The Trustee asks the Plan's Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered every three years as part of the review of the Statement of Investment Principles.

Duration of arrangements with asset managers

For the open-ended pooled funds in which the Plan invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Plan's asset allocation and its ongoing alignment with the Trustee's investment aims, beliefs and constraints is assessed at least every three years. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

Portfolio turnover costs

The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. The Trustee will monitor "portfolio turnover costs" incurred by the investment managers as part of their investment monitoring, typically on an annual basis.

- The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

During the investment manager appointment process, the Trustee considers both past and anticipated portfolio turnover levels. When underperformance is identified deviations from the expected level of turnover may be investigated with investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.