

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

Statement of Investment Principles

September 2022

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, the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

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.

Choosing Investments

The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. 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 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 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 in assets that are expected to achieve the Plan's objectives. The allocation between different asset classes is contained within Appendix 1.

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 will be expected to change as the Plan's liability profile matures.

Risks

The Trustee has considered the following risks 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.

Expected return on investments

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 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 Plan 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.

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 2.

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: The Trustee monitors the overall strategy, taking into account market conditions and the Plan's funding position.

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 as at September 2022 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 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:

- Vanguard Investments UK, Limited and Vanguard Group (Ireland) Limited accessed via Aberdeen Standard;
- Schroder Pension Management Limited;
- Muzinich & Co. Limited;
- Insight Investment Management (Global) Limited;
- Royal London Asset Management ("RLAM")
- M&G

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		
Vanguard FTSE Developed World ex UK Pension Fund	FTSE Developed ex-U.K. Index	To track the performance of the index.
Vanguard FTSE Developed World Hedged Pension Fund	FTSE Developed Index in GBP	
Schroder		
Diversified Growth Fund	ICE BofA Sterling 3-Month Government Bill Index	To outperform short-term interest rates on government bonds by approximately 4% p.a. after 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	SONIA	To provide investors with stability of capital and income through investment in short-term fixed income and variable rate securities.
Global ABS Fund	SONIA	To deliver positive absolute returns in excess of the benchmark, generated from income and capital appreciation
M&G		
All Stocks Corporate Bond Fund	iBoxx Sterling Non-Gilts Index	To outperform the benchmark by 0.80% p.a. gross of fees on a rolling three year basis.
RLAM		
PPC UK Corporate Bond Fund	iBoxx Sterling Non-Gilts Index	To outperform its benchmark by 0.50% p.a. net of fees on a rolling three year basis.

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	17%
Muzinich Global Tactical Credit Fund	16%
Insight Global ABS Fund	10%
Insight Liability Driven Investment Funds and Sterling Liquidity Plus Fund**	35%
M&G	7.5%
RLAM	7.5%
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 approximately 95% of the interest rate and inflation risk on the Plan's liabilities measured on the Technical Provisions basis.

In the event of a re-leveraging event for the Insight LDI funds, any call for additional funds would firstly be met by the Sterling Liquidity Plus Fund and then secondly from the Global ABS Fund. In the event of a distribution from 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 - 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 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.

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:

- **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.

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.