

# Servier Laboratories Limited Pension Fund (the “Fund”) Statement of Investment Principles (the “Statement”)

## Scope of Statement

This Statement has been prepared in accordance with Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015. The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments. A separate document, the Investment Policy Implementation Document (“IPID”), detailing the specifics of the Fund's investment arrangements is available to members upon request.

The effective date of this Statement is 30 September 2020. The Trustees will review this Statement and the Fund's investment strategy no later than three years after the effective date of this Statement and as soon as practicably possible after any significant change in investment policy.

The Fund comprises two sections: the Defined Contribution Section (which includes those Defined Contribution members with a GMP underpin) and the Defined Benefits Section. There is no cross subsidy between the two sections. This Statement covers both the Defined Benefit Section and the Defined Contribution Section.

## Consultations Made

The Trustees have consulted with the principal employer, Servier Laboratories Limited, the sponsor of the Fund, prior to writing this Statement and have taken the principal employer's comments into account as appropriate.

The Trustees are responsible for the investment strategy of the Fund and have obtained written independent professional advice on the appropriate investment strategy and on the preparation of this Statement. This advice was provided by their appointed professional investment adviser, Aon Solutions UK Limited, which is authorised and regulated by the Financial Conduct Authority.

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

The Trustees have decided to implement the Defined Contribution Section's investment strategy through Aon's Delegated DC Services. Under this approach, the Trustees delegate the selection of the platform provider and day-to-day management of the funds to Aon, through Aon Investments Limited (Aon Investments). The available fund range includes a number of white-labelled blended funds. The choice of underlying managers and structure of each blended fund is delegated to the investment manager, namely Aon Investments.

# 1 – Defined Contribution Section

## 1.1 Objectives and policy for securing objectives

The Defined Contribution Section of the Fund is open to new members.

The Trustees' investment objective is to make available a range of pooled investment funds which serve to meet the varying investment needs and risk tolerance of the Fund's members. In particular, the Trustees aim to provide investment options that allow members:

- To maximise the value of their assets at retirement
- To maintain the purchasing power of their savings in real (i.e. post-inflation) terms; and
- To provide protection for accumulated assets in the years approaching retirement against:
  - Sudden (downward) volatility in the capital value
  - Fluctuations in the cost of securing an income and / or cash in retirement

## 1.2 Investment Policy

The investment policy falls into two parts:

- The strategic management, the setting of which is one of the fundamental responsibilities of Trustees; and
- The day-to-day management of the assets, which has been delegated to professional investment managers.

### 1.2.1 Strategic management

Three distinct asset allocation strategies are offered to members, which target different benefits at retirement, namely drawdown, annuity purchase and cash. These asset allocation strategies are offered through a target date fund structure, namely the Aon Managed Retirement Pathway Fund series, managed by Aon Investments. Details of the three asset allocation strategies are provided in the IPID.

For members who do not wish to make an active decision regarding the investment of their assets, a Default Option has been put in place following consideration of the Fund membership, the risks associated with investment and after taking advice from Aon Solutions UK Limited. Furthermore, as the Fund is being used for auto-enrolment purposes, the Trustees are required to designate a default arrangement into which members are invested.

The Default Option that applies is the Aon Managed Retirement Pathway Fund series, which targets drawdown at retirement.

Each member is allocated to the relevant Retirement Pathway Fund with a target date that most closely matches their selected retirement date. The switching of assets between the different underlying funds used within each asset allocation strategy is carried out within each target date fund.

Each asset allocation strategy aims to provide members with the potential for higher levels of growth during the accumulation of their retirement savings through exposure to growth assets including equities. Following the accumulation phase, each asset allocation strategy gradually diversifies their investments in the years approaching retirement to reduce volatility and to provide a broad base of assets from which members can choose the type of benefits they wish to take.

In setting the three asset allocation strategies, the Trustees have reviewed the extent to which the return on investments (after deduction of any charges relation to those investments) is consistent with the objectives of the strategy, which is broadly to provide an appropriate risk/return profile given the needs of members. The Trustees have also considered analysis of the existing membership of the DC Section, including considerations of factors such as age, accumulated fund values and term to retirement.

The Trustees will regularly review the appropriateness of the three asset allocation strategies, taking into account any significant changes in the demographic profile of the relevant members, and may make changes to fund choice from time to time. Members will be advised accordingly of any changes.

Whilst the Trustees retain responsibility for choosing the funds made available to members, it is the individual member's responsibility to:

- choose which specific funds they invest in, either by choosing the Default Option, one of the alternative asset allocation strategies, or by following their own investment strategy;
- monitor the performance of their own investments; and
- review the ongoing appropriateness of their chosen funds in light of their own individual circumstances.

### 1.2.2 Day-to-day management

The Trustees invest the main assets of the Defined Contribution section of the Fund in pooled funds managed by Aon Investments. The Trustees are satisfied that the spread of assets by type and the investment manager's policies on investing in individual securities within each type provides adequate diversification of investments. The Trustees have regard to the suitability of the investment funds described above through periodic strategy and performance review. The Trustees expect the manager of the funds to have regard to the suitability of the investment contained within each fund in accordance with each fund's investment aims.

## 1.3 The balance between different kinds of investments

The Trustees recognise that the key source of financial risk in relation to meeting its objectives normally arises from the choice of funds offered to members and is mindful of the fact that holding all of the Defined Contribution assets in a traditional balanced fund could involve too high a level of investment risk for members approaching retirement. As a result, the Trustees implement a "lifestyle" default strategy for the Defined Contribution Section. Members are, however, able to choose a different strategy if they so wish.

The Trustees retain responsibility for choosing the funds available and take advice as required from its professional advisers.

## 1.4 Investment risk measurement and management

The Trustees have considered risk from a number of perspectives. These are:

- The risk that the investment return achieved on the contributions invested over members' working lives does not provide a fund sufficient to secure an adequate pension. To mitigate this risk the underlying investment strategy aims to give a greater potential for growth over the longer term when members are still a number of years from retirement.
- The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in the retirement outcomes compared with the members' expectations.

For those members invested in one of the three asset allocation strategies, members' funds will automatically be switched into lower risk funds, as described in the IPID, as they approach retirement, with the aim of reducing volatility. Where members are making their own investment choices, it should be noted that the risk profile of the members' assets will be affected by their choice of funds, and that the range of funds that is available includes funds that are aimed at offering relative security as retirement approaches.

- The risk that the chosen investment manager underperforms the benchmark against which the manager is assessed. The Trustees recognise that the use of an active manager involves such a risk and for this reason offer both active and passive investment options for members. The risk of manager underperformance is mitigated by the delegated nature of fund manager selection.
- The risk that the absolute return on investments, and hence the value of the retirement income, may be diminished by inflation. To help mitigate this risk, a range of funds is offered, including growth funds which aim to provide real growth (in excess of inflation) over the long term.
- The risk of fraud, poor advice or acts of negligence. The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced.

The Trustees recognise that members take the investment risk and the Trustees manage this risk through the selection and monitoring of investment performance and the choice of funds offered to members and monitors the continued appropriateness of the default strategy for the membership

### Investment risk measurement and management.

## 1.5 Expected returns on assets

Over the long term the Trustees' expectations are:

- for units representing "growth" assets (UK equities and a diversified growth fund), to achieve a return which provides a real return above the increase in price inflation over the same period. The Trustees consider short-term volatility in equity price behaviour to be acceptable, given the general expectation that over the long term these assets will outperform the other asset classes;
- for the "monetary and index-linked" assets: for units representing index-linked bonds to achieve a rate of return in line with the cost of providing index-linked annuities;
- for units representing monetary assets (corporate bonds, cash etc) to achieve a rate of return which is expected to be approximately in line with changes in the cost of providing annuities or a cash sum at retirement.

Returns achieved by the investment managers are assessed against performance benchmarks set by the Trustees in consultation with its advisers and investment managers.

## 2 – Defined Benefit Section

### 2.1 Investment Objectives

The Trustees recognise that the key objective is to maximise the probability that the Fund is able to provide all of the benefits due to members. They recognise that the investment strategy should take account of the principal employer's interests in respect of the size and incidence of contributions required.

### 2.2 Choosing investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Fund, its cashflow requirements, the funding level of the Fund and the Trustees' objectives.

It is the Trustees' intention to ensure that the assets of the Fund are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment (or delegation where these powers have been delegated to an investment manager) in a manner calculated to ensure, as far as is reasonably practicable, the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk, a spread of assets is held. The diversification is both within and across the major asset classes.

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

The assets of the Fund are invested predominantly in regulated markets (with investments not in regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

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

The Trustees monitor the level of self-investment by the Fund on a periodic basis and are satisfied that at the current time there is negligible self-investment.

### 2.3 The balance between different kinds of investments

The Trustees recognise that the key source of financial risk in relation to meeting its objectives arises from asset allocation. It therefore retains responsibility for setting the Fund's overall asset allocation and takes advice as required from its professional advisers.

The Trustees review their investment strategy in conjunction with each formal actuarial valuation of the Fund or more frequently should the circumstances of the Fund change in a material way.

## 2.4 Investment risk measurement and management

The most important risks are recognised as arising from asset allocation. These will be assessed at least annually and following an update of the actuarial valuation. This assessment is forward-looking and may incorporate the use of asset and liability modelling techniques. Checks will be made to assess whether the funding and investment strategy remains on target to achieve the original objectives and within acceptable parameters. If it does not then corrective action will be considered by adjusting investment policy or through amendments to the Schedule of Contributions.

Risks associated with changes in the employer covenant are assessed by monitoring the Failure Score as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy. The Trustees also have an agreement with the principal employer to receive notification of any events which have the potential to alter the creditworthiness of the sponsoring employer.

In particular, the Trustees will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator, and employer-related Notifiable Events. On receipt of such notification, the Trustees will re-consider the continued appropriateness of the Fund's existing investment strategy.

For due diligence and good governance purposes, the Trustees will meet with the investment managers on a regular basis.

## 2.5 Expected returns on assets

Over the long term the Trustees' expectations are:

- for the "growth" assets (i.e. the diversified growth funds) to achieve a return which provides a real return above the increase in price inflation over the same period. The Trustees are willing to incur short-term volatility in asset price behaviour with the expectation that, over the long term, these assets will outperform asset classes which may be regarded as matching the liabilities;
- for the "matching" assets (i.e. the LDI fund) to achieve a rate of return which is broadly in line with changes in the valuation of the Fund's liabilities due to changes in interest rates.
- for the assets as a whole to provide projected returns at least in line with the Trustees' funding assumptions as set out in the Statement of Funding Principles.

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

## 3 - Both sections

### 3.1 Realisation of investments/liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise. Units in the funds in which the Fund invests may normally be bought and sold on a daily basis and hence the Trustees are satisfied with the liquidity of the Fund's investments.

### 3.2 Environmental, Social, and Governance considerations

In setting the Fund's DB and DC investment strategies, the Trustees' primary concern is to act in the best financial interests of the Fund's beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly.

The Trustees consider this risk by taking advice from their investment adviser when setting the Fund's asset allocation, when selecting managers and when monitoring their performance.

### 3.3 Stewardship – Voting and Engagement

The Trustees recognise the importance of their role as a steward of capital and the need to ensure high standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Fund invests, as this ultimately this creates long-term financial value for the Fund and its beneficiaries.

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

The Trustees review the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions. The Trustees will review the alignment of the Trustees' policies to those of the Fund's investment managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustees' rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change. This will include Aon Investments monitoring its underlying investment managers' voting and engagement activities, and engaging with these managers to promote good corporate governance, accountability, and positive change.

The Trustees will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Fund members on request. The transparency for voting should include voting actions and rationale with relevance to the Fund, in

particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustees or the investment manager.

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

### 3.4 Members' Views and Non-Financial Factors

In setting and implementing the Fund's investment strategy (for both DB and DC) the Trustees do not explicitly take into account the views of Fund members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

For DC members, the Trustees have made the Ethical and Islamic funds available to members who would like to invest in funds with these specific considerations. The underlying funds that make up the default fund and other self-select funds should not apply personal ethical or moral judgements as the sole basis for an investment decision.

### 3.5 Arrangements with Investment Managers

#### **Defined Contribution Section**

The Trustees have appointed Aon Investments as their fiduciary manager, who they consider to be their investment manager. References in this policy to 'underlying investment managers' refers to those investment managers which Aon Investments in turn appoints to manage investments on behalf of the Trustees.

The Trustees recognise that the arrangements with their fiduciary manager, and correspondingly the underlying investment managers, are important to ensure that interests are aligned. In particular, the Trustees seek to ensure that the fiduciary manager is incentivised to operate in a manner that generates the best long-term results for the Fund and its beneficiaries.

The Trustees receive regular reports from the fiduciary manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Fund objectives, and assess the fiduciary manager over 3-year periods.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their fiduciary manager, which supports the Trustees in determining the extent to which the Fund's engagement policy has been followed throughout the year.

The Trustees share the policies, as set out in this Statement, with the Fund's fiduciary manager and request that they review and confirm whether their approach is in alignment with the Trustees' policies.

The Trustees delegate the ongoing monitoring of underlying investment managers to the fiduciary manager. The fiduciary manager monitors the Fund's investments to consider the extent to which the

investment strategy and decisions of the underlying investment managers are aligned with the investment objectives of the Fund.

This includes monitoring the extent to which the underlying investment managers:

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

Before appointment of a new fiduciary manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies. Where possible, the Trustees will seek to amend that documentation or express their expectations (such as through side letters, in writing, or verbally at Trustee meetings) so that there is more alignment.

The Trustees believe that having appropriate governing documentation, setting clear expectations to the fiduciary manager, and regular monitoring of the fiduciary manager's performance and investment strategy, is sufficient to incentivise the fiduciary manager to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where the fiduciary manager is considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically engage with the fiduciary manager to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with the fiduciary manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying investment managers that the fiduciary manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place.

### **Defined Benefit Section**

The Trustees regularly monitor the Fund's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustees' policies, including those on non-financial matters. This includes monitoring the extent to which investment managers:

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

The Trustees are supported in this monitoring activity by their investment adviser.

The Trustees receive reports and verbal updates from the investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Fund objectives, and assess the investment managers over 3-year periods.

The Trustees also receive stewardship reports on the monitoring and engagement activities carried out by their investment manager, which supports the Trustees in determining the extent to which the Fund's engagement policy has been followed throughout the year.

The Trustees share the policies, as set out in this Statement, with the Fund's investment managers, and request that the investment managers review and confirm whether their approach is in alignment with the Trustees' policies.

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

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

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

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

## 3.6 Monitoring of Investment Manager Costs

### Defined Contribution Section

#### Cost Monitoring

For the DC Section, the Trustees collect information on member-borne costs and charges on an annual basis, where available, and sets these out in the Plan's Annual Chair's Statement regarding DC Governance (the "Annual Chair's Statement"), which is made available to members in a publicly accessible location.

No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustees expects their advisers to highlight if these costs and charges appear unreasonable when they are collected as part of the Annual Chair's Statement exercise.

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

The Trustees receive annual cost transparency reports from their fiduciary manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Fund;
- The fees paid to the fiduciary manager;

- The fees paid to the investment managers appointed by the fiduciary manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager;
  - The Trustees define portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager;
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees)
- The impact of costs on the investment return achieved by the Fund.

The Trustees acknowledge that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustees.

The Trustees benefit from the economies of scale provided by the fiduciary manager in two key cost areas:

- The ability of the fiduciary manager to negotiate reduced annual management charges with the appointed investment managers;
- The ability of the fiduciary manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the investment managers and achieve efficiencies where possible;

### **Evaluation of Performance and Remuneration**

The Trustees assess the (net of all costs) performance of their fiduciary manager on a rolling three-year basis against the Fund's specific investment objective. The remuneration paid to the fiduciary manager and fees incurred by third parties appointed by the fiduciary manager are provided annually by the fiduciary manager to the Trustees. This cost information is set out alongside the performance of the fiduciary manager to provide context. The Trustees monitor these costs and performance trends over time.

### **Defined Benefit Section**

#### **Evaluation of Performance and Remuneration**

The Trustees evaluate the performance of their investment managers relative to their respective objectives on a regular basis via investment reports and updates from the investment managers. The Trustees also review the remuneration of the Fund's investment managers on at least a triennial basis to ensure that these costs are reasonable in the context of the kind and balance of investments held.

#### **Portfolio turnover**

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

### 3.5 Effective Decision Making

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

### 3.6 Additional Voluntary Contributions (“AVCs”) Arrangements

Some members obtain further benefits by paying Additional Voluntary Contributions (AVCs) to the Fund. The majority of members AVC assets are invested in the same funds that are utilised for the main Fund. Some assets are also invested with Scottish Widows Fund and Life Assurance Society.

From time-to-time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

**Approved and agreed by the Trustees of the Servier Laboratories Limited Pension Fund on 25 September 2020.**