CAPITA

LEO Pharma Retirement Benefits Plan

Statement of Investment Principles – September 2020

Introduction

The Trustees of the LEO Pharma Retirement Benefits Plan have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. In preparing this Statement the Trustees have consulted the Leo Laboratories Ltd ("the Employer") on the Trustees' investment principles.

Governance

The Trustees make all major strategic decisions including, but not limited to, the Plan's asset allocation and the appointment and termination of Investment Managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement an investment strategy and Investment Manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustees take proper advice. The Trustees' investment consultants, Capita Employee Solutions ("Capita"), are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

Investment Objectives

The Trustees are required to invest the Plan's assets in the best interest of members, and their main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Plan's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Plan;
- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Employer in relation to the size and volatility of the Employer's contribution requirements.

The Trustees understand, following discussions with the Employer, that it is willing to accept a degree of volatility in the company's contribution requirements in order to reduce the long-term cost of the Plan's benefits.

Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Plan. The Trustees believe that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustees further believe that the current investment strategy is appropriate given the Plan's liability profile. The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the Plan arises as a result of a mismatch between the Plan's assets and its liabilities. This is therefore the Trustees' principal focus in setting investment strategy, taking into account the nature and duration of the Plan's liabilities.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's liabilities as well as producing more short-term volatility in the Plan's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The documents governing the managers' appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.

- The Trustees recognise that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk is outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others. Therefore, the Plan's assets are managed through a mixture of active and passive management which may be adjusted from time to time.

- The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Plan's circumstances, the Trustees will review whether the current risk profile remains appropriate.

CAPITA

Investment Strategy

Given the investment objectives the Trustees have implemented the investment strategy detailed in the Appendix. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

The Trustees have adopted a dynamic approach to asset allocation. They have set triggers to change the asset allocation as the return required to reach a Self-Sufficiency funding level of 100% by 28 February 2026 reduces. Full details are contained in the "Governance Framework for Dynamic De-risking Implementation" document, effective from March 2014.

The Trustees intend to maintain an on-going mechanism to reduce investment risk relative to the liabilities of the Plan ('de-risk') over time and at a pace dictated by a combination of investment market conditions and funding levels.

De-risking involves changes to the balance between return seeking assets and liability matching assets. However the timing and implementation of changes to the target allocation is not fixed but is designed to be dynamic and able to adapt to future market opportunities to accommodate de-risking by the Trustees.

The Trustees believe that the investment strategy and consideration of future de-risking programmes are appropriate for controlling the risks identified and meeting the required level of return to meet the funding objectives.

Expected Return

The Trustees expect the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustees expect to generate a return, over the long term, of circa 2.25-2.50% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Plan's liability value. This return is a "best estimate" of future returns that has been arrived at given the Plan's longer term asset allocation and in the light of advice from the investment consultant.

The Trustees recognise that over the short term performance may deviate significantly from this long term expectation. This "best estimate" will also generally be higher than the estimate used for the actuarial valuation of the Plan's liabilities. For this purpose a more prudent estimate of returns will generally be used, as agreed by the Trustees on the basis of advice from the Scheme Actuary.

Financially material considerations over the Plan's time horizon

The Trustees believe that their main duty, reflected in their investment objectives, is to protect the financial interests of the Plan's members. The Trustees believe that ESG considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. range. Accordingly, the Trustees have Legislation requires that the Trustees form a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Plan. The Trustees recognise that this is a defined benefit plan closed to new members, with members across a wide age formed the view that the appropriate time horizon of this Plan could still be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustees have elected to invest predominantly in pooled funds and it is difficult to, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest. However, the Trustees will consider these policies in all future selections and will seek to deepen their understanding of their existing manager's policies by reviewing these at least annually. In cases where they are dissatisfied with a manager's approach they will take this into account when reviewing them. They are also keen that their manager is a signatory of the UN Principles of Responsible Investment, which is currently the case.

The Trustees believe that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustees are keen that their manager can explain when, and by what practical methods, the manager monitors and engage with relevant persons about relevant matters in this area. They will be liaising with their manager to obtain details of the voting behaviour (including the most significant votes cast on the Trustees' behalf). The Trustees are also keen that their manager is a signatory of the UK Stewardship Code. This is currently the case.

The Trustees will monitor the voting being carried out by their Investment Managers and custodians on their behalf. They will do this by receiving reports from their Investment Managers which should include details of any significant votes cast and proxy services that have been used.

The Trustees are aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their Investment Managers. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach over time with the help of their investment consultant. Consequently, the Trustees expect the Plan's Investment Managers to have effective ESG policies (including the application of voting rights) in place, and look to discuss the Investment Managers' ESG policies with it when the manager attends Trustee meetings.

Non-financial matters, including members' views are currently not taken into account.

Platform Provider

The Trustees have appointed Legal & General Investment Management Limited ("the Platform Provider") to manage all of the assets of the Plan. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

Investment Mandates

The Trustees have selected BlackRock Investment Management (UK) Limited, Legal & General Investment Management Limited ("LGIM"), BNY Mellon Investment Management ("BNY Mellon") and Standard Life Investments Limited ("Standard Life") as the appointed Investment Managers ("the Investment Managers") to manage the assets of the Plan via a single policy with the Platform Provider. The Investment Managers are themselves regulated under the Financial Services and Markets Act 2000.

The Trustees have rolling contracts with their Investment Managers

The Trustees monitor the performance of their Investment Managers on a quarterly basis. This monitoring is contained in a report provided by their investment consultants.

The Trustees have set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

Investment Manager Remuneration

The Trustees monitor the remuneration, including incentives, that are paid to their Investment Managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustees carry out on a regular basis, they ensure that this policy is in line with their investment strategy.

Investment Manager Philosophy and Engagement

The Trustees monitor the Investment Managers' process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustees consider if the Investment Managers are incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustees are conscious of whether the Investment Managers are incentivised by the agreement with the Trustees to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustees will monitor costs of buying, selling, lending and borrowing investments and they will look to monitor the costs breakdown annually, as long as the Investment Managers provide these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their Investment Managers monitor the frequency of transactions and portfolio turnover. If there are any targets then they will monitor compliance with these targets.

Compliance with Myners' Principles

In October 2008 the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance:

- Principle 1: Effective decision making

- Principle 2: Clear objectives
- Principle 3: Risk and liabilities
- Principle 4: Performance measurement
- Principle 5: Responsible ownership
- Principle 6: Transparency and Reporting

The Trustees believe that they comply with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustees believe this to be justified.

Employer-Related Investments

The Trustees' policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

Additional Voluntary Contributions ("AVCs")

The Plan provides a facility for members of the Plan to pay AVCs held in policies of insurance with Prudential and MGM Assurance in order to enhance their benefits at retirement.

The Plan's arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and that the investment profile of the funds remains consistent with the objectives of the Trustees and needs of the members.

Fee Structures

The Platform Provider is paid a management fee on the basis of assets under management which includes the underlying Investment Managers' management fees. The investment consultants are paid on a fixed fee basis for providing 'core services'. The Trustees can also request that their investment consultants undertaken 'out-of-scope' projects, which may be undertake on a fixed fee or time-cost basis - as negotiated between the Trustees and their investment consultants.

Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension plan investments.

Trustee

CAPITA

Date

Signed on behalf of the Trustees of the LEO Pharma Retirement Benefits Plan

CAPITA

Appendix – Investment Mandates

The Trustees have appointed the Investment Managers to manage the assets of the Plan via the Platform Provider. The Investment Managers are regulated under the Financial Services and Markets Act 2000. Their mandates are set out below:

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Strategic Allocation %	Control Limits % (+ / -)
Return-seeking Asset Types				**60**	**5.0**
Developed Market equities	LGIM	UK Equity Index	Passive	20	
	LGIM	North America Equity Index	Passive	6.7	
	LGIM	Europe ex UK Equity Index	Passive	6.7	
	LGIM	Japan Equity Index	Passive	3.3	
	LGIM	Asia Pacific (ex-Japan) Developed Equity Index	Passive	3.3	
Diversified Growth Funds	Standard Life	Global Absolute Return Strategies (GARS) Fund	Active	10	
	BNY Mellon	Real Return Fund	Active	10	
Fixed-Income Asset Types				**40**	**5.0**
UK Corporate Bonds	Blackrock	BIBF Over 10 Year Corporate Bond	Active	30	
UK Index-Linked Gilts	LGIM	Over 5 Year Index–Linked Gilt Index Fund	Passive	10	

The Plan currently has Internal Rate of Return (IRR) triggers in place based on their liabilities on a Self-Sufficient basis. Information on the de-risking process was provided in our report titled “Governance Framework for Dynamic De-risking Implementation”, effective from March 2014. The remaining pre-agreed trigger levels which, if activated, will lead to de-risking towards the Plan’s target asset allocation are as follows:

Triggers (required return above Gilts p.a.)	Equities %	Diversified Growth %	Corporate Bonds %	Index-Linked Gilts %
Current	**40.0**	**20.0**	**30.0**	**10.0**
Trigger 1 – 1.6% p.a.	**30.0**	**20.0**	**30.0**	**20.0**
Trigger 2 – 1.2% p.a.	**20.0**	**20.0**	**30.0**	**30.0**
Trigger 3 – 0.8% p.a.	**10.0**	**20.0**	**30.0**	**40.0**
Trigger 4	**TBC**	**TBC**	**TBC**	**TBC**
Trigger 5	**TBC**	**TBC**	**TBC**	**TBC**