

Galderma (UK) Limited Section of the Deloitte Pensions Master Plan

Statement of Investment Principles

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1. Introduction

This is the Statement of Investment Principles (the "Statement") for the Galderma (UK) Limited Section of the Deloitte Pensions Master Plan (the "Scheme"). It has been prepared on behalf of the Section Trustee (the "Trustee") to comply with section 35 of the Pensions Act 1995 (the "Act"), as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005 (the Investment Regulations).

The Trustee will review this Statement at least every three years to ensure it remains accurate. The Statement will be amended more frequently and as soon as possible should any changes be made to the Scheme's investment strategy. The Trustee is committed to maintaining the accuracy of this Statement on an ongoing basis.

As required under the Act, the Trustee has consulted a suitably qualified person by obtaining written advice from Deloitte Total Reward and Benefits Limited ("DTRB") on the suitability of the investments and the principles contained in this Statement. The Trustee complies with the requirements to maintain and take advice on the Statement and consult with Galderma (UK) Ltd (the "Principal Employer"). The Principal Employer has been consulted on the contents of this Statement and will be consulted should the Trustee wish to make any amendments to this Statement.

The Trustee has full regard to its investment powers set out in the Galderma (UK) Limited Section Rules. The Statement is consistent with those powers.

2. Investment Objectives

The Scheme is close to fully-funded on a low risk funding basis. Having considered the Scheme's specific circumstances, the Trustee's overall investment policy is guided by the following objectives:

- To ensure all obligations to the beneficiaries of the Scheme are met in a timely manner;
- To invest the Scheme's assets appropriately to run the Scheme on a low risk basis with high levels of hedging on interest rates and inflation to lessen funding level volatility and to reduce the likelihood of placing any reliance on the Sponsor in the **short-term**; and
- To achieve a degree of outperformance in the investment strategy relative to the liabilities' basis in order for the Scheme to progress towards being in a position to buyout in the **long-term**.

The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustee has obtained exposure to investments that it expects will meet the Scheme's objectives as best as possible.

3. Choosing Investments

The Trustee's policy is to set the overall investment target and then monitor the performance of the managers against that target. In doing so, the Trustee considers the advice of its professional advisers, who they consider to be suitably qualified and experienced for this role.

The day-to-day management of the Scheme's assets is delegated to the Scheme's investment manager Legal & General Investment Management ("LGIM"). LGIM is authorised and regulated by the Financial Conduct Authority.

The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of LGIM as the investment manager with respect to performance within any guidelines set. The Trustee will also consult the Principal Employer before amending the investment strategy.

4. Investment Strategy

When deciding on an appropriate investment strategy, the Trustee has taken into account discussions with regard to the Scheme's funding approach, the covenant strength of the Sponsor, and wider circumstances of the Scheme.

The Scheme's assets are invested in a diversified portfolio comprising:

- A liability driven investment ("LDI") portfolio which aims to hedge the majority of interest rate and inflation exposure inherent within the Scheme's liabilities;
- A buy and maintain credit portfolio to provide additional interest rate hedging and generate cashflow in support of the payment of benefit cashflows; and
- An allocation to global equities to provide a degree of outperformance verses the Scheme's technical provisions liabilities.

Over the **medium term**, the Trustee will monitor opportunities to diversify the Scheme's return seeking asset portfolio in order to reduce the level of risk associated with the investment strategy.

The Trustee has agreed the strategic benchmark asset allocation as set out in the table below.

Asset Class	Fund	Benchmark (%)
Liability Driven Investment ("LDI") Portfolio	LGIM Matching Core/Matching Plus Fund Range	45
Buy and Maintain Credit	LGIM Maturing Buy & Maintain Credit Fund Range	12.5
Global Equities	LGIM All World Equity Index Fund (GBP Hedged)	42.5
Cash	LGIM Cash Fund	-
Total	-	100

While there is no strategic asset allocation to the LGIM Cash Fund, the Trustee can use this from time to time for cashflow management purposes.

The Trustee will review the asset allocation of the Scheme relative to the strategic benchmark on a regular basis and update where appropriate to ensure that the strategy remains in line with the Trustee's objectives and risk tolerances.

When choosing the Scheme's asset allocation strategy the Trustee considered written advice from their investment consultant and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.
- The need for liquidity.

The Trustee is aware that the appropriate balance of different kinds of investments will vary over time and therefore the Scheme's asset allocation will be reviewed as the Scheme's liability profile matures.

5. Investment Manager Fees

Investment manager fees (Total Ongoing Charges) are paid based on the market value of assets under management. The following fee arrangements have been agreed between the Trustee and LGIM for each of the mandates:

LGIM All World Equity Index Fund (GBP Hedged) – 0.155% p.a. on the invested amount.

LGIM Matching Core/Matching Plus Funds – 0.18% p.a. on the invested amount.

LGIM Maturing Buy & Maintain Credit Fund Range – 0.14% p.a. on the invested amount.

LGIM Cash Fund – 0.075% p.a. on the invested amount.

6. Expected Return

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.

The Trustee expects that over the long-term, the investment strategy selected will deliver a return that meets the return assumptions used by the Scheme Actuary in the Actuarial Valuation after allowing for a degree of prudence.

7. Monitoring Investments

The Trustee receives biannual monitoring reports from its advisors showing:

- estimated funding level on both the Technical Provisions basis and buy out basis;
- estimated time to buy out;

- risk analysis including 1 year 95% Value at Risk;
- analysis of interest rate and inflation hedging positions;
- asset allocation relative to strategic benchmark position;
- performance for the assets in totality and for individual pooled investment vehicles versus their respective benchmarks;
- any significant issues with the pooled investment vehicles or LGIM that may impact their ability to meet the performance targets set by the Trustee for the Scheme.

The Trustee meets the Scheme's investment manager as frequently as is appropriate in order to review performance.

8. Realisation of Investments

The Trustee's policy in relation to the retention and realisation of investments is that:

- Investments should be retained and realised at a time considered by the Trustee after obtaining proper advice, unless earlier realisation is required or considered advisable as part of the overall risk management of the Scheme or is otherwise required to be realised to meet benefit payments or transfer values.
- In retaining any investment, it is the Trustee's policy to periodically review whether the continued retention of that investment is appropriate and to obtain proper advice on whether retention is satisfactory given the matters referred to in this Statement.

The Scheme is cashflow negative given that there are no active members and while the Scheme is not receiving any regular ongoing contributions from the Principal Employer. The Trustee has therefore intentionally invested a proportion of the Scheme's assets into income distributing assets (i.e. the global equities and buy & maintain credit mandates) that will be primarily used to meet the Scheme's ongoing cashflow requirements, and to prevent the Scheme from routinely being a forced seller of investments and incurring transaction costs in the process.

The Scheme's LDI mandate is invested via a pooled fund. This pooled fund holds sufficient collateral within it such that collateral calls and distributions are not expected in the course of usual market movements. If market movements are significant and additional collateral is required the scheme holds sufficient liquid assets to be able to meet the demand.

The Trustee's policy on the duration of arrangements with its investment manager is set out below. The Trustee, with guidance from its investment advisor, has chosen to invest in a combination of liquid open-ended pooled funds.

For open ended pooled funds the Trustee's policy is to enter arrangements with no fixed end date. However, in this case the Trustee will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. The Scheme's open ended investments are weekly dealt. The Trustee will determine whether to

terminate such arrangements on an ongoing basis through its regular monitoring of the investment manager's performance against objectives. The Trustee may also elect to terminate the arrangement with an asset manager when performing ongoing reviews of the suitability of the Scheme's asset mix over time.

9. Risk Measurement and Management

Funding Risk is the risk that the Scheme has insufficient assets to meet all of its liabilities. In this regard the Trustee liaises with the Principal Employer (as sponsor to the Scheme) to consider the level of risk being taken in the context of the Trustee's view of the financial strength of the Principal Employer and its commitment to and ability for supporting the Scheme.

The Trustee has identified a number of risks which have the potential to adversely impact the funding level of the Scheme and, therefore, contribute to Funding Risk. The Trustee's policy in relation to investment risks (including how it measures and manages them) is as follows:

- **Solvency risk** – Solvency levels are monitored through ongoing triennial actuarial and accounting valuations, with appropriate action to prevent undue deterioration of the funding position.

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 of the Scheme's funding basis.

- **Mismatching risk** - The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. The Trustee and its advisors considered this risk when setting the investment strategy. In particular, the risk that a fall in the level of interest rates or a rise in the level of inflation expectations could result in the Scheme's liabilities to increase to a greater extent than the Scheme's assets.

The Trustee has implemented a high degree of interest rate and inflation hedging by investing in a leveraged liability hedging portfolio, consisting of leveraged exposure to gilts and index-linked gilts, and in buy & maintain credit. This is expected to provide interest rate and inflation hedging levels of c. 95% and c. 90% respectively of the Scheme's liabilities on the Technical Provisions basis.

- **Currency risk** – The risk of adverse influence on investment values arising from unfavourable currency movements. The Trustee has sought to manage this risk by investing either in sterling denominated assets, or where it has invested in overseas assets to achieve better diversification it has invested in a currency hedged fund.

The Scheme is exposed to overseas assets priced in overseas currencies in its buy & maintain credit (which invests in UK and US) and global equity mandates, however, the Scheme invests in currency-hedged funds where any overseas currency exposure is hedged back to sterling.

- **Manager risk** – The failure by the fund manager to achieve the rate of investment return assumed by the Trustee. The Trustee monitors its manager as frequently as appropriate and compares the investment returns with the appropriate performance objectives to ensure continuing acceptable performance.
- **Liquidity risk** – The risk of a shortfall of liquid assets relative to the Scheme’s immediate liability cashflow requirements. The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme’s cash flow requirements.
- **Concentration risk** – The failure to spread investment risk. This risk is to some extent mitigated through the use of pooled funds to gain investment exposure to the asset classes the Scheme invests in. In respect of diversification between asset classes, the Trustee and its advisor considered this risk when setting the Scheme’s investment strategy. The Trustee has adopted a strategy that ensures that there is not a majority of assets invested in any one asset class and that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments is reduced by diversification of the assets:
 - By asset class (Global Equities, Buy & Maintain Credit, LDI); and
 - By region (Global Equities, Buy & Maintain Credit).

Over the **medium term**, the Trustee will monitor opportunities to diversify the Scheme’s return seeking asset portfolio in order to further reduce the level of risk associated with the investment strategy when appropriate and with advice from its advisor.

- **Covenant risk** – The risk of failure of the Principal Employer. The Trustee has considered the risk that the Principal Employer may be unwilling or unable to maintain any necessary level of contributions in future. The Scheme’s funding position relative to the strength of the Principal Employer is monitored on a regular basis. The Trustee considers this when assessing the appropriate level of investment risk to have within the investment strategy. There is a parent company guarantee in place from Galderma SA so this assessment extends to the strength of the parent.

The Trustee of the Scheme has a Letter of Credit from Barclays Bank PLC which provides protection to the Scheme for an amount that would (together with existing assets) bring the Scheme to a funding level of 105% on a solvency basis should demand for payment be triggered (in line with the requirements of the letter). The Letter of Credit is renewed annually.

- **Market risk** – The value of securities, including equities, ground rents and interest bearing assets, can go down as well as up. The Scheme may not get back the amount invested. However, the Trustee realises that this risk is implicit in trying to generate returns above that earned by cash and accept this by investing in assets other than cash in order to achieve the level of return required within the Scheme’s Actuarial Valuation assumptions.

- **Overseas Investment Risk** – The risk that the value of securities may be affected by uncertainties relating to the overseas markets in which they invest. For example, uncertainties such as political developments, market sentiment, economic conditions, changes in government policies, restrictions on foreign investment and other developments in the laws and regulations of countries in which investments are made. The Scheme’s global equity and buy & maintain credit mandates are both diversified by region and sector to mitigate this risk.
- **Counterparty Risk** – The risk that a counterparty is unable to honour its obligation under a contract agreement causing the Scheme to suffer a loss. Examples of which include derivative contracts within the Scheme’s liability driven investment funds and the corporate bonds held within the buy and maintain credit portfolio.

The fund manager diversifying exposure across a number of counterparties and regular monitoring of counterparty creditworthiness manages this. In addition, for derivative contracts the manager will use central clearing and will collateralise with high-quality collateral (cash or gilts).

- **Leverage Risk** – The Scheme’s liability driven investments are leveraged which will multiply the exposure of these funds to certain assets, therefore amplifying the consequences of a move in the value of these assets. These funds may incur transaction costs associated with re-balancing the level of collateral held within the funds. There is a risk that the Scheme will be required to pay additional collateral into these funds in order to maintain the level of interest rate and inflation hedging.

Should such an event arise then the Trustee has instructed Legal & General to take these additional assets from the LGIM Cash Fund or if insufficient the LGIM All World Equity Index Fund (GBP Hedged). Should this still be insufficient to meet the required top up amount, the Scheme’s level of hedging will be reduced.

10. Policy on ESG and Stewardship

The Trustee acknowledges that certain environmental, social and governance issues, including climate change (together referred to as “ESG” factors) are financially material and may therefore influence the risk and return characteristics of the Scheme’s investments and the likelihood that the Scheme’s objectives will be achieved.

To confirm, the Trustee’s policy is not to take into account non-financial matters in the selection, retention, and realisation of investments. Therefore, no consideration has been given to non-financial matters, nor has the Scheme’s membership been consulted on such issues.

When setting investment strategy and selecting investments, the Trustee’s first priority is the financial interests of the members. The Trustee is satisfied that the existing fund investments fulfil the needs of their target investment strategy.

The Trustee’s policy is to invest in pooled investment vehicles with LGIM. It is therefore LGIM that is responsible for the policy on taking ESG considerations into account in the selection, retention and realisation of investments within the

pooled investment vehicles and for the exercise of rights (including voting rights) attaching to these investments.

The Trustee has not selected ESG focused or tilted investment funds at this time but expects LGIM to engage on the Trustee's behalf to influence investee companies positively in respect of ESG matters and to consider the risks emanating from ESG factors where the manager has the discretion over the selection, retention and disposal of investments.

In relation to the Scheme's equity investment which is index tracking, the Trustee has chosen a global, market capitalisation weighted index. LGIM's objective is to track the chosen index and therefore has no influence over the selection, retention and realisation of investments. However, the Trustee expects LGIM to use its voting rights and to actively engage with the senior management of the companies in which it invests in order to influence positive change in respect of ESG matters.

The Trustee's policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Scheme's interests in the investments. The Trustee expects LGIM to engage with investee companies (and other relevant persons including, but not limited to, investment managers, and issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments. The Trustee believes that such engagement will protect and enhance the long-term value of its investments. The Trustee expects LGIM to provide regular updates on how it exercises voting rights and actively engages with the companies in which it invests, including how often it votes against company proposals. The Trustee will review this information on a regular basis.

The Trustee expects LGIM to integrate ESG factors into the decision making process when selecting, retaining and realising investments as part of the assessment of long term business and credit risk within the Scheme's buy and maintain credit portfolio.

11. Asset Manager Arrangements

If the Trustee believes that LGIM is no longer acting in accordance with the Trustee's policies (as set out in this Statement), including those regarding ESG and engagement with investee organisations to assess and improve their medium to long-term financial and non-financial performance, the Trustee will if necessary, consider selecting a different fund or appointing a replacement investment manager which is more closely aligned with the Trustee's policies and views.

Regular monitoring of LGIM against objectives, with specific reference to ESG factors, should incentivise LGIM to assess and improve the medium to long-term performance of investee companies, both financial and non-financial, as otherwise the Trustee will select an alternative manager.

In addition to performance measures as set out in Section 7 of this Statement, the Trustee will review the engagement activity of LGIM on a regular basis to ensure that active engagement is taking place where possible to influence positive change in relation to ESG factors within investee companies (for both the Scheme's corporate bond and equity holdings). The Trustee will monitor the

voting activity of LGIM on the shares held within the Scheme's equity portfolio to ensure votes are being used and are aligned to their views.

The Trustee also reviews the fees charged by its investment managers on a regular basis as part of its monitoring framework to ensure fees remain reasonable in the context of the Scheme's size and complexity. By monitoring performance net of all costs, LGIM is incentivised to consider the impact of portfolio turnover on investment performance. The remuneration of the investment managers is not directly linked to performance or to ESG factors, given the absence of performance related fees.

The Trustee's policy is not to monitor portfolio turnover costs for each mandate as it feels that given the nature of the mandates this will not be a material consideration for the Scheme. The Scheme holds a buy and hold credit mandate where turnover is expected to be low. The Scheme's passively managed equity portfolio has the objective to replicate a benchmark index which requires assets to be bought and sold when the constituents of the underlying index change. These sales and purchases are inherent in the nature of the mandate and are not at the discretion of LGIM. To avoid being a forced buyer/selling of stocks and to reduce transaction costs when the index changes, LGIM has flexibility on exactly when to buy and sell and what proportions of each asset in the index to hold to minimise transaction costs.

12. Compliance with this Statement

In accordance with legislation, the Trustee will monitor compliance with this Statement on a regular basis. The Trustee will review the Statement at least every three years and in response to any material change to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and Sponsor, which they judge to have a bearing on the stated policy.

Signed by the Trustee of the Galderma (UK) Limited Section of the Deloitte Pensions Master Plan on 30 September 2020