UNIPATH PENSION SCHEME (DEFINED CONTRIBUTION SECTION)

STATEMENT OF INVESTMENT PRINCIPLES

1. INTRODUCTION

The Trustee Directors of Unipath Pension Trustee Limited ("*the Trustee*") acting on behalf of the members of the Defined Contribution Section of the Unipath Pension Scheme ("*the Scheme*") have drawn up this Statement of Investment Principles ("*the Statement*") to comply with the requirements of section 35 of the Pensions Act 1995 *("the Act")* and successor legislation including the Pension Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme has both Defined Benefit ("DB") and Defined Contribution ("DC") benefits. The Trustee has prepared a separate Statement to address the principles for the DB Section.

1.1. Advice

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 in respect of their security, quality, liquidity and profitability, the need for diversification and the principles contained in this Statement. DTRB is authorised and regulated by the Financial Conduct Authority.

1.2. Consulted parties

The Trustee in preparing this Statement has also consulted Unipath Limited *("the Sponsoring Company*"), particularly in regard of the Trustee's objectives and investment strategy.

1.3. Investment Powers

The investment powers of the Trustee is set out in Clauses E2 and E3 of the Trust Deed dated 3 December 2002. This Statement is consistent with those powers.

The Trustee recognises that the assets must be invested in the best interests of members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of members and beneficiaries.

The Trustee has overall responsibility for the prudent management of the Scheme's assets. The strategic management of the Scheme assets is fundamentally the responsibility of the Trustee to act on advice from DTRB and is driven by their investment objectives as set out in Section 2 below.

The remaining elements of policy are part of the day to day management of the assets that is delegated to a professional Investment Manager, who is authorised and regulated by the Financial Conduct Authority and described in Section 3.

2. INVESTMENT OBJECTIVES AND RISK

2.1. Investment Objectives

Under the DC Section, the Trustee's primary investment objectives are:

- to provide a default investment option that is likely to be suitable for members within the section who do not make an active choice on their investments.
- to offer an appropriate range of alternative self-select investment options for members that wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives.
- to achieve good member outcomes net of fees and subject to acceptable level of risk.
- that the expected volatility of the returns achieved is managed through appropriate diversification of asset types in order to control the level of volatility and risk in the value of members' pension pots.
- to help manage the risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received on retirement. In the lifestyle arrangements made available to members, the Trustee increases the proportion of assets that more closely match how they expect members to access their retirement savings.

The Trustee is responsible for the design of the default investment option and for choosing which funds to make available to members. Members are responsible for their own choice of investment options.

If a conflict arises over the interaction of these objectives, the Trustee will consult the Sponsoring Company before making any change to the strategy.

2.2. Risk

Risk in a DC scheme lies with the members themselves. In determining suitable investment choices to members, the Trustee has considered a number of risks. The main investment risks affecting all members are:

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

- Retirement income risk: the risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustee reviews the appropriateness of the investment option offered, seeking to ensure member outcomes can be maximised.

- Investment manager risk: actions by the investment manager in the day-to-day management of the assets such that they will not achieve the rate of investment return assumed by the Trustee (investment manager risk). In aiming to control manager risk, the focus of the Trustee's attention is on the risk of the investment manager under-performing the objectives set. These issues are considered on the initial appointment of an investment manager and thereafter as part of the investment review procedures the Trustee has in place. Control of the first element is achieved through regular reviews of the appointed investment manager's performance and of any developments that may deem them unsuitable for a continuing appointment. The second element is taken into account when considering the continuing suitability of the current investment manager and, when appropriate, the appointment of a new investment manager.

- Conversion risk: the risk that market movements in the period just prior to retirement increase the cost of turning members' funds into retirement benefits. In the Lifestyle programme, the Trustee changes the proportion and type of investments so that in the run up to retirement the investments gradually start to more closely match how the Trustee expects members to access their retirement savings.

- Custody risk: actions by the custodian. Custody risk could involve any of the following: misappropriation of assets; delivery that is not in accordance with the instructions; unauthorised use of assets for the benefits of other customers of the custodian; inadequate segregation of customer assets; failure to collect income, recover tax or respond to corporate events; and defaulting on the general obligations of the custodian.

3. DAY-TO-DAY MANAGEMENT OF THE ASSETS

3.1. Main Assets

The assets of the Scheme will be managed by Legal and General Assurance (Pensions Management) Limited ("L&G").

The Investment Manager appointed by the Trustee must exercise its investment powers in accordance with the terms of the Scheme and their respective investment management agreement, with a view to giving effect to the principles contained in this Statement so far as is reasonably practicable. In particular, the Investment Manager must have regard to the suitability and diversification of the investments within the guidelines set by the Trustee under or pursuant to their respective agreement. Subject to these guidelines, the Investment Manager has responsibility for the day-to-day discretionary management of assets.

3.2. Custody Arrangements

The Investment Manager provides custodial services for investments. Custody services for the L&G funds are provided by HSBC.

3.3. Investment Diversification

The Trustee is satisfied that the spread of assets and the Investment Manager's policies on investing in individual securities broadly provides adequate diversification of investments, with respect to the default fund of the DC Section.

3.4. Investment options

The Trustee has made available a range of funds to suit the individual needs of the Scheme's members. For example, equity funds are available for those members willing to accept a greater level of volatility in pursuit of higher expected retirement savings. Bond and cash funds are offered for those members who are less comfortable with the likely greater volatility of the equity funds.

Where members do not choose where their contributions are invested, the Scheme has an automatic process called "Lifestyle" for making investment decisions on behalf of members as they progress through their working life to reflect their changing needs. The aim of the Lifestyle programme is to obtain a good, long-term rate of return (in excess of inflation) for an individual's pension account over the majority of their working life. It is designed to provide an automatic means of switching the account from equity-based investments to a combination of bonds and cash as they approach retirement. The Normal Retirement Age under the Scheme is 65, although members may specify a different Target Retirement Age.

The Trustee maintains an Investment Implementation Policy Document (IIPD) which contains details of the Scheme's investment arrangements. Details of the default option and self-select fund range can be found in the IIPD.

3.5. Expected Return

The Trustee expects the long-term return of the investment options that invest predominantly in equities and other growth assets to exceed i) price inflation ii) general salary growth and iii) long term returns on bonds and cash.

The investment options which invest predominantly in bonds and lower risk assets are expected to provide returns above cash and/or in line with bonds, but their primary purpose is to lower the volatility of returns experienced and to preserve capital value.

3.6. Policy on Environment, Social and Governance (ESG) factors and Stewardship

The Investment Manager (L&G) is responsible for managing the Scheme's investments in accordance with the management agreements in place with the Trustee. The Trustee has delegated the responsibility for the exercise of all rights (including voting rights) attaching to the investments to the Investment Manager.

The Trustee is responsible for setting the Scheme's investment strategy and implementing the strategy through the appointment of investment managers and selection of investment funds. When setting investment strategy and selecting investments, the Trustee's first priority is the financial interests of their members. The Trustee regularly reviews the return objectives, risk characteristics, investment approach and investment guidelines of each of the Scheme's current investments. The Trustee is satisfied that all existing fund investments fulfil the needs of their target investment strategy and by extension, that L&G is managing the Scheme's assets in a manner which is consistent with members' financial interests.

The Trustee acknowledges that certain 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, no consideration has been given to non-financial considerations, nor has the Scheme's membership been consulted on such issues.

As part of the selection, retention and realisation of the Scheme's investments, the Trustee, in consultation with their investment advisor, has reviewed the ESG and stewardship policies of the Investment Manager and are comfortable that these policies are consistent with their views. In particular, the Trustee note the following:

- The Investment Manager has clear views on ESG factors and stewardship which are clearly articulated in formal policies on these issues.

- The Scheme's investments are passively managed where the Investment Manager is restricted in the choice of underlying assets to invest in. As such, stewardship is of primary importance in ensuring that financially material ESG factors are given appropriate consideration.

- The Trustee note that the Investment Manager has clear stewardship policies that aim to influence the ESG practices of the companies it invests in and the Investment Manager has demonstrated how it acts on these policies. For example, the Investment Manager has voted on company proposals covering climate risk, political donations, gender diversity on company boards, board independence issues and remuneration policies.

- The Investment Manager regularly publishes detailed results of how its stewardship policies are enacted in practice and the Trustee expects the Investment Manager to provide regular updates on how they exercise those rights, including how often the Investment Manager votes against company proposals.

The Trustee will keep its investments under review, and should it feel that the Investment Manager no longer acts in accordance with its views on ESG, the Trustee will take the following steps:

- engage with the Investment Manager in the first instance, in an attempt to influence their policies on ESG and stewardship; and

- if necessary, look to appoint a replacement investment manager or managers that are more closely aligned with the Trustee's policies and views.

These statements are made noting that the Scheme's assets are invested in pooled funds and as such, the Trustee is restricted in their ability to directly influence its Investment Manager on the ESG policies and practices of the companies in which the pooled funds invest.

With the help of its investment advisor, the Trustee will prepare an implementation report setting out how it has acted on its ESG principles. This will include information from the Scheme's investment managers on how ESG factors have been taken into account over the year.

3.7. Manager Arrangements

The Trustee recognises the importance of ESG factors on long term investment performance and both immediate and future downside risks. The Trustee has set an appropriate monitoring framework to ensure the Scheme's investment manager is regularly reviewed. This is to promote greater transparency in understanding the reasons behind performance trends and key risk exposures, and also engagement activity and compliance with the Trustee's stated ESG policy. Regular monitoring, with specific reference to ESG factors should incentivise the Scheme's investment manager to assess and improve the medium to long-term performance of investee companies, both financial and non-financial.

The Trustee recognises the importance of regular monitoring of the Investment Manager's performance, remuneration and compliance against ESG policy to ensure that the Scheme's assets are being managed appropriately. The Trustee believes that regular monitoring ensures that key risks to longer term performance, including those relating to ESG factors, are quickly identified and concerns communicated with the relevant investment manager.

In addition to performance measures, the Trustee will review the engagement activity of the investment manager to ensure that active engagement is taking place where possible to influence positive change in relation to ESG factors within investee companies. The Trustee will also monitor the voting activity of the investment manager to ensure votes are being used and are aligned to their views on ESG.

The remuneration of the investment manager is not directly linked to performance, given the absence of performance related fees, or to ESG practices. However, the Trustee will review and replace the investment manager if net of fees investment performance and ESG practices are not in line with the Trustee's expectations and views. This incentivises the investment manager to act responsibly.

The Trustee also reviews the fees charged by its investment manager on a quarterly basis as part of its monitoring framework to ensure fees remain reasonable in the context of the Scheme's size and complexity.

The Trustee reviews investment manager costs and charges (including portfolio turnover costs) on a quarterly basis, and on the selection of any mandate, to ensure that they are appropriate and competitive for the service being provided. The Trustee monitors the portfolio turnover in the context of what the Trustee believes to be reasonable given the nature of each mandate. By also monitoring performance net of all costs, investment managers are incentivised to consider the impact of portfolio turnover on investment performance.

The Trustee, with guidance from their Investment Advisor, have chosen to invest in 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 Trustee's policy is to invest in pooled investment vehicles. It is the investment manager that is responsible for the exercise of rights (including voting rights) attaching to these investments.

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, having regard to appropriate advice. The Trustee expects the investment manager to engage with investee companies (and other relevant persons including, but not limited to, investment managers, 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 expect the Scheme's investment manager 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 on a regular basis in line with its monitoring policy mentioned above.

3.8. Realisation of Investments

In general the Investment Manager has discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. Moreover, by definition, cash is the most liquid and, ignoring term deposits, the most realisable of asset classes.

3.9. Monitoring

The Trustee will monitor the suitability of the default fund and self-select fund range from time to time, and at least at least every three years against the investment objectives and after any significant change in the demographic profile of the membership.

The Trustee and DTRB will meet at least annually to review the Investment Manager's actions together with the reasons for and background behind the investment performance.

The Investment Manager will supply the following information each quarter in relation to the funds under its management to facilitate a review of activity by the Trustee:

- a report of the strategy followed during the quarter
- a full valuation of assets
- a transaction report
- a cash reconciliation.

The Trustee will consider from time to time, whether the custodian:

- has the appropriate knowledge and experience
- is carrying out its work competently

The Trustee will establish Key Performance Indicators ("KPIs") for the Investment Manager. The Trustee will consider from time to time, and at least every three years, whether the fund manager:

- has achieved the KPIs set
- has the appropriate knowledge and experience
- is carrying out its work competently
- has had, and continues to have, regard to the need for diversification and security of investments within each fund which it manages
- has had, and continues to have, regard to the suitability and security of each investment within each fund which it manages
- is exercising its powers of investment and stewardship with a view to giving effect to the principles contained in this Statement, so far as is reasonably practicable.

If the Trustee is not satisfied in respect of any of the above matters, it will require the Investment Manager concerned or the custodian to satisfy it in this respect or will replace it.

4. COMPLIANCE WITH THIS STATEMENT

The Trustee will monitor compliance with this Statement annually. In particular they will obtain written confirmation from the Investment Manager that they have complied with this Statement as supplied to them and the Trustee undertakes to advise the Investment Manager promptly and in writing of any material change to this Statement.

5. REVIEW OF THIS STATEMENT

The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Sponsoring Company which they judge to have a bearing on the stated Investment Policy. Any such review will again be based on written, expert investment advice and the Sponsoring Company will be consulted.

Signed:

Date: 30 September 2020

For and on behalf of Unipath Pension Trustee Limited, Trustee of the Unipath Pension Scheme