Napp Pharmaceutical Group Pension Scheme

Statement of Investment Principles – March 2023

1. Introduction

Napp Pension Trustees Limited ("the Trustee"), the corporate trustee of the Napp Pharmaceutical Group Pension Scheme ("the Scheme") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the following legislation:

- Pensions Act 1995 as amended by the Pensions Act 2004 and subsequent legislation; and

- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments.

In preparing this Statement, the Trustee has consulted the Principal Employer (see Section 13) to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives;

- Agree the level of risk consistent with meeting the objectives set; and

- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk.

In considering the appropriate investments for the Scheme the Trustee has obtained and considered the written advice of Mercer Limited ("Mercer"), whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee's objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

To guide them in their strategic management of the assets and control of various risks to which the Scheme is exposed, the Trustee (in consultation with the Company) has adopted the following objectives:

- To make sure that obligations to the beneficiaries of the Scheme are met.
- To pay due regard to Napp Pharmaceutical Holdings Limited's interests in the size and incidence of the employer's contribution payments.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee has considered the risks to which the Scheme is exposed, and has formulated the following policies on risk management:

- The primary risk upon which the Trustee focuses is that arising through a mismatch of interest rate and inflation sensitivity between the Scheme's assets and its liabilities. The Trustee has increased the allocation to bonds on a number of occasions since 2018, in order to increase the interest rate and inflation exposures of the assets and reduce the mismatch risk between the assets and liabilities. The Trustee has also appointed a specialist Liability Driven Investment ("LDI") manager, specifically to manage mismatching risk relating to interest rates and inflation.
- The Trustee recognises 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 Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk. Over the last few years the Trustee has reduced the allocation to growth assets to reduce downside risk as the funding position has improved. The Trustee has also introduced a de-risking framework designed to gradually reduce growth asset risk further as the funding position improves.
- The Trustee recognises 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 Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- There is the risk that active management could result in underperformance against the relevant benchmark. The Trustee recognises that such a risk exists and has taken the decision that the majority of the Scheme's assets should be managed passively.
- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The investment managers are prevented from investing in asset classes outside their mandate without the Trustee's prior consent.
- Arrangements are in place to monitor the Scheme's investments to help the Trustee determine that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets regularly with the Scheme's investment managers and receives regular reports from the investment managers and Mercer.
- The safe custody of the Scheme's assets is delegated to professional custodians (via the use of pooled vehicles).

- The Trustee recognises that currency risk exists when investing in assets denominated in a foreign (non-sterling) currency due to foreign exchange rate fluctuations affecting the value of those assets when translated into the home currency (sterling). The Trustee has taken steps to mitigate this by introducing a degree of currency hedging within the overseas developed equity assets.
- The Trustee recognises that Environmental, Social and Governance ("ESG") issues, including climate change, may have substantive impacts on the global economy and subsequently investment returns as presented by different climate-related risk factors. The Trustee seeks to manage this risk by monitoring and reviewing that the fund managers the Scheme employs are suitably experienced to consider these risks in the services they provide to the Scheme.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

5. Investment Strategy

Long-Term De-Risking Framework

The Trustee has introduced a framework to gradually reduce investment risk as the funding position improves. The overall objective of the framework is to inform the timing of de-risking switches to allow the Scheme to further 'lock-in' improvements in the funding position when this is ahead of the expected path. The de-risking triggers are set with reference to achieving a target funding level of 110% on the Long Term Funding Target ("LTFT") basis. This is considered a broad proxy for the potential cost of securing the benefits of the Scheme with an insurance company in the future. The framework, including the de-risking triggers, asset allocations and funding target will be reviewed periodically. The target asset allocation at each de-risking step is outlined below.

Asset Class	**De-Risk Step 1 (%)**	**De-Risk Step 2 (%)**	**De-Risk Step 3 (%)**	**De-Risk Step 4 (%)**	**De-Risk Step 5 (%)**
Equities	22.5	20.0	15.0	10.0	5.0
Diversified Growth	5.0	2.5	2.5	2.5	2.5
Property	2.5	2.5	2.5	2.5	2.5
Total Growth	***30.0***	***25.0***	***20.0***	***15.0***	***10.0***
Corporate Bonds	25.0	27.5	30.0	32.5	35.0
LDI	45.0	47.5	50.0	52.5	55.0
Total Matching	***70.0***	***75.0***	***80.0***	***85.0***	***90.0***
Total Scheme	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

BlackRock Portfolio – Growth Assets

The BlackRock growth portfolio consists of various different regional equity funds, including currency hedged shareclass such that the overall currency hedging is broadly 50% for development market currencies. The portfolio also includes the BlackRock Dynamic Diversified Growth (DDG) fund. The split between the equities and DDG will evolve over time as per the de-risking steps outlined above.

BlackRock Portfolio – Fixed Income Portfolio

This portfolio consists of the Scheme's investment in the BlackRock UK Buy and Maintain Credit Fund.

The portfolio invests in UK and overseas corporate bonds. This includes securities denominated in overseas currencies, and such holdings will typically be hedged back to sterling by Blackrock. The portfolio is diversified by geography, sector and credit rating and the buy and maintain approach is intended to ensure that portfolio turnover is lower than a traditional credit portfolio. The holdings in the portfolio contribute towards the liability hedging, as well as generating an additional yield over UK government bonds.

BlackRock Portfolio – Liability Driven Investment (LDI) Portfolio

BlackRock manages the Scheme's Liability Driven Investment ("LDI") portfolio.

BlackRock is permitted to invest in a range of unlevered passive gilt funds and Liability Matching Funds ("LMFs") within the LDI Portfolio. The LMFs provide the flexibility to increase the Scheme's hedge ratio without increasing the proportion of assets invested in the LDI portfolio by using leverage. BlackRock will allocate to a combination of unlevered passive gilt funds and LMFs which best matches the liability profile of the Scheme and achieves the target hedging level of 85% of the value of liabilities in respect of interest rate risk and 90% in respect of long term inflation risk. The Trustee will review the hedging portfolio from time-to-time and the hedge ratios will increase as the Scheme de-risks.

The Trustee, having taken expert advice from Mercer, believes that the targeted asset mix is currently appropriate for meeting the objectives and controlling the risks outlined in Section 4.

The Trustee regularly reviews the continued appropriateness of the Scheme's investment strategy including consideration of asset classes other than those in which the Scheme already invests.

Rebalancing and Cashflow Policy

The Trustee has a policy of having no minimum allocation to the growth assets and no maximum allocation to bonds (fixed income and LDI portfolios). This policy, agreed previously following consultation with the Company, reflects the fact that over time the Trustee intends to further de-risk the investment strategy by reducing the allocation to growth assets when it is deemed appropriate to do so.

BlackRock will automatically rebalance assets within the growth portfolio that they manage, should the assets fall outside of the ranges set out in the table above. However, no automatic rebalancing is carried out between the growth assets and matching portfolio. The Trustee will review the asset mix at each quarterly meeting and will consider taking action to bring the Scheme back in line with the target allocations. Additionally, target allocations will be taken into account when processing investments or disinvestments that are required to meet cashflows.

6. Day-to-Day Management of the Assets

The Trustee delegates the day to day management of the Scheme's assets to two investment managers. The Trustee regularly reviews the continuing suitability of the

Scheme's investments, including the appointed managers, the strategic asset allocation and the balance between active and passive management, which may be adjusted from time to time.

All of the Scheme's equity and bond assets are passively managed by BlackRock, the diversified growth mandate is actively managed by BlackRock and the property mandate is actively managed by Lothbury Investment Management ("Lothbury"). The Scheme's assets are managed to the following benchmarks:

Asset Class	Benchmark
Total Growth	**-**
Total Equities	**-**
UK Equity	FTSE All-Share Index
Overseas Developed Equity*	Weighted Composite
US Equity	*FTSE AW USA Index*
Europe (ex-UK) Equity	*FTSE AW Dev Europe (ex-UK) Index*
Japan Equity	*FTSE AW Japan Index*
Pacific Rim Equity	*FTSE AW Dev Asia Pac (ex- Japan) Index*
Overseas Developed Equity (GBP hedged)*	Weighted Composite (95% GBP hedged)
US (GBP hedged) Equity	*FTSE AW USA 95% GBP Hedged Index*
Europe (ex-UK) (GBP hedged) Equity	*FTSE AW Dev Europe (ex-UK) 95% GBP Hedged Index*
Japan (GBP hedged) Equity	*FTSE AW Japan 95% GBP Hedged Index*
Pacific Rim (GBP hedged) Equity	*FTSE AW Dev Asia Pacific (ex-Japan) 95% GBP Hedged Index*
Emerging Market Equity	MSCI Global Emerging Markets index
Diversified Growth	3 Month SONIA + 3% p.a.
Property	IPD Monthly Property Index
Total Bonds/LDI	**-**
UK Index-Linked Gilts	FTSE A Over 25 Years Index-Linked Gilts Index
UK Fixed Interest Gilts	FTSE A Over 15 Year Gilts Index
Liability Matching Funds	Change in value of the gilt or index-linked gilt allowing for the impact of leverage
Buy-and-Maintain Corporate Bonds	No specific benchmark**
Total	**-**

*Figures for the constituents of the overseas equities may not sum due to rounding of the allocations in the above table to one decimal place.

**This reflects that the fund aims to select money-good credits without reference to a specific benchmark. Performance will be assessed against a number of criteria including its ability to avoid defaults.

All investments are held in units of pooled funds operated by BlackRock and Lothbury.

7. Expected Return

The Trustee expects the Scheme's assets to generate returns, over the long term, above that which would have been achieved had no investment risk been taken within the portfolio i.e. invested solely in a portfolio of long dated Government debt. It is recognised that over the short term performance may deviate significantly from the long term target.

8. Responsible Investment and Corporate Governance

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee will monitor how ESG, climate change and stewardship is integrated within investment processes. The Trustee will consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policies on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments. Monitoring is undertaken on a regular basis and is documented.

The Trustee can review the decisions made by their managers, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long term performance over the medium to long term.

The Trustee is supportive of the UK Stewardship Code published by the Financial Reporting Council in July 2010 and updated in 2020, and encourages the Scheme's equity manager to comply with the UK Stewardship Code. The managers are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Member views are not currently taken into account in the selection, retention and realisation of investments.

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

9. Investment Manager Appointment, Engagement and Monitoring

Aligning manager appointments with investment strategy

The investment managers are appointed by the Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustee looks to its investment consultant for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management. The Trustee utilises the consultant's manager research ratings in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Two mandates of the Scheme are actively managed and the managers are incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) as part of the wider monitoring of the Scheme's managers.

As the Scheme's investments are made through pooled investment vehicles, the Trustee accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to replace the manager.

Evaluating investment manager performance

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustee reviews the absolute performance and relative performance against a suitable index used as the benchmark, on a net of fees basis. The Trustee's focus is primarily on long term performance but short term performance is also reviewed.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives, and may ask the manager to review their fees. The Trustee can also terminate an appointment if required.

Portfolio turnover costs

The Trustee receives MiFID II reporting from their investment managers and investment consultant (where applicable) but does not currently analyse such information.

The Trustee does not currently monitor portfolio turnover costs but may look to do this as part of an annual governance review.

Manager Turnover

The Trustee is a long term investor and is not looking to change the investment arrangements on a frequent basis. For all funds invested in by the Scheme (which are open-ended vehicles), there is no set duration for the manager appointments. The Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the Trustee has decided to terminate.

Additional Assets

Additional Voluntary Contributions (AVCs) are separately invested on a money purchase basis with Equitable Life Assurance Society ("Equitable Life") and Prudential (who offer a range of funds in which members can invest their AVCs). Prudential was appointed in 2001 as a replacement AVC provider to Equitable Life and all new AVC contributions will be invested with Prudential. Certain assets remain invested with Equitable Life. Copies of the Agreements with Equitable Life and Prudential are available for inspection at Cambridge Science Park.

The following six funds are made available to AVC members:

- BlackRock Aquila Global Equity Index Fund (40:60)
- BlackRock Aquila World (Ex-UK) Equity Index Fund
- Prudential UK Equity Passive Fund
- Prudential Index-Linked Passive Fund
- BlackRock Aquila Corporate Bonds All Stocks Index Fund
- BlackRock Ascent Sterling Government Liquidity Fund

In addition, further to this decision, the following changes were agreed in respect of the AVC assets:

- New AVC contributors will only be allowed to invest in the six funds mentioned above.
- No Lifestyle option will be offered within the AVC offering for new members.
- Existing AVC contributors will be able to continue to contribute to the range of AVC funds previously offered before the introduction of the new fund range.
- The exception to this is the Cash and Deposit funds previously offered which are to be closed as part of the agreed changes with all existing monies in the Cash and Deposit funds to be transferred to the BlackRock Ascent Sterling Government Liquidity Fund.
- Existing contributors will also be able to use the newly introduced funds listed above for new AVC contributions and transfer their existing funds to them if they wish to do so.

A relatively low balance of Scheme assets is also held in deposit and current bank accounts to facilitate benefit payments.

10. Realisation of the Assets

The Trustee has delegated the responsibility for buying and selling investments to the investment managers who have undertaken not to exceed the Trustee's investment powers as set out in the trust deed.

As noted, the day-to-day activities which the investment managers carry out for the Trustee are governed by the Agreement between the Trustee and the investment managers, which is reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

11. Monitoring Compliance with this Statement

We the Trustee; the investment managers; Mercer, our consultants; and the Scheme Actuary (all of whom have been appointed by the Trustee) each have duties to perform to ensure compliance with this Statement. These are:

The Trustee will review this Statement at least every three years on the advice of Mercer.

The investment managers, BlackRock and Lothbury, prepare and will continue to prepare quarterly reports to the Trustee including:

- Valuation of all investments held for the Scheme.
- Records of all transactions together with a cash reconciliation.
- A review of recent actions undertaken on behalf of the Scheme together with a summary of their current stated policy.
- Written confirmation that the principles contained in this Statement have been followed and that the manager has had regard for the need for diversification and the suitability of investments to the Scheme.

The investment managers also notify us in advance of any new investment categories in which they are proposing to invest.

Mercer, our consultants, and the Scheme Actuary provide and will continue to provide the advice needed to assist us to review and update this statement as required. Mercer also provides independent quarterly investment performance reports.

12. Review of this Statement

The Trustee will review this Statement at least every three years and without delay following any material changes to any aspects of the investment policy detailed above. Any such review will again be based on written expert investment advice and will be in consultation with the Principal Employer.

13. Principal Employer

For the avoidance of doubt Napp Pharmaceutical Holdings Limited has been nominated by all Participating Employers under the Scheme to act as their representative for the purposes of Section 35 (3) of the Pensions Act 1995 (as amended by the Pensions Act 2004).

Agreed and adopted by the Napp Pension Trustees Limited – March 2023