The Celltech Pension and Life Assurance Scheme

Statement of Investment Principles

Scope of Statement

This Statement of Investment Principles (the "Statement" or "SIP") 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). The Statement affirms the investment principles that govern decisions about the Scheme's investments. A separate document, the Investment Policy Implementation Document ("IPID"), detailing the specifics of the Scheme's investment arrangements is available upon request.

The effective date of this Statement is 07 June 2024. Celltech Pension Trustee Limited (the "Trustee") will review this Statement annually and the investment strategy of the Celltech Pension and Life Assurance Scheme (the "Scheme") no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

Consultations Made

In preparing this statement, the Trustee has consulted with the employer, UCB Celltech (the "Company").

The Trustee is responsible for the investment strategy of the Scheme. It has obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. Aon Investments Limited, who are authorised and regulated by the Financial Conduct Authority, provided this advice.

The day-to-day management of the Scheme's assets 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 investment managers appointed and is available to the members of the Scheme and published on a publicly accessible website.

Scheme Governance and Structure

The Trustee considers the governance structure as detailed below as appropriate to receive sufficient information to take appropriate decisions on the investment of Scheme assets and to retain control over the key decisions on investment. Information will be provided by the Scheme's appointed investment managers and advisers.

- The Trustee Board.
- The Scheme investment managers, see IPID for appointed managers.
- The Scheme actuarial advisor, Aon Investments Limited.
- The Scheme investment advisor, Aon Investments Limited.

Objectives and Policy for Securing Objectives

The Trustee's primary objectives for setting the investment strategy of the Scheme are set out below:

- "funding objective" - to ensure that the Scheme has sufficient assets available to pay members' benefits as and when they arise, using assumptions underlying the calculation of the Scheme's Technical Provisions. Where an actuarial valuation reveals a funding deficit, a recovery plan will be agreed with the Company which will seek to remove the deficit over an agreed period;
- "stability objective" - to have due regard to the likely level and volatility of required contribution payments when setting the investment strategy;
- "diversification objective" – to ensure that the Scheme's assets are appropriately diversified across a range of assets classes, markets and investment strategies so as to mitigate and manage concertation, geopolitical, and currency risks;
- "cost objective" – to manage and minimise where possible the long-term costs of the Scheme by (i) maximising the return on the Scheme's investments whilst having regard to the "funding objective", and (ii) by utilising passive, active, delegated and other investment management approaches to manage costs;
- "de-risking objective" – to monitor the progression of the Scheme's funding level (on a technical provisions basis) and seek opportunities to de-risk the investment strategy when it is appropriate and affordable to do so, consistent with the funding objective; and
- "security objective" - to ensure that the solvency position of the Scheme is expected to improve. The Trustee will take into account the strength of the Company's covenant when setting the investment strategy.

The investment strategy chosen by the Trustee aims to maximise the likelihood of achieving these objectives whilst taking an appropriate amount of investment risk. The Trustee recognises that these objectives may conflict. For example, a greater allocation to more defensive assets may give greater security but may result in a level of contributions that the Company may find too difficult to support. The Trustee also recognises that in resolving this conflict, it is necessary to accept some risk.

Choosing Investments

The types of investments held, and the balance between them, is deemed appropriate given the liability profile of the Scheme, its cash flow requirements, the funding level of the Scheme and the Trustee's objectives. The assets of the Scheme are invested in the best interests of the members and beneficiaries.

A broad range of available asset classes has been considered. This includes Government bonds, Global Corporate bonds, Global Equities, Multi Asset Strategies and Equity Derivatives.

The Trustee exercises its powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the Scheme as a whole. The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the Scheme as a whole. The diversification is both within and across the major asset classes.

The Trustee delegates day-to-day selection of stocks to the investment managers appointed.

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

Investment in derivatives is only made in so far 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 Balance Between Different Kinds of Investments

The Trustee recognises that the key source of financial risk (in relation to meeting its stated objectives) arises from investment strategy. It therefore retains responsibility for setting investment strategy, and taking expert advice as required from its professional advisers.

Investment Risk Measurement and Management

The key investment risks are recognised as arising from investment strategy, Company failure and investment managers.

Investment Strategy Risks

The Trustee believes the most appropriate means of determining asset allocation is by asset and liability modelling, which will be carried out in conjunction with each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way), unless the Trustee agrees a strategy review is not required.

As part of each annual funding assessment, the Trustee assesses whether the funding and investment strategy remains on target to achieve the Trustee's objectives within acceptable parameters. If not, corrective action is considered.

The choice of asset allocation strategy is designed to ensure that the Scheme's investments are adequately diversified and liquid. The Trustee monitors the strategy regularly to ensure that it is comfortable with the level of diversification and liquidity being achieved and from time to time may use derivatives to further limit risk within the strategy.

Company Failure Risks

The Trustee receives a covenant update from the Company at quarterly Trustee meetings, which covers (amongst other things) information on the trading position, cashflow and balance sheet. In addition, the Trustee takes professional advice from an external party tri-annually. In the event of the Company providing notification of any event that has the potential to alter the covenant of the Company (and including 'Type A' events as defined in appropriate guidance issued by the Pensions Regulator and any other Company-related Notifiable Events), the Trustee will consider the continued appropriateness of the Scheme's investment strategy.

Celltech Group Limited is the Principal Employer of the Scheme and provides a full Section 75 guarantee to the Scheme although it has no members within the Scheme.

Fund Manager Risks

The review and selection of investment managers is carried out as appropriate, and is based on expert advice taken from the Trustee's investment advisor, Aon Investments Limited.

The Trustee has instructed Aon Investments Limited to alert it to any matters of material significance that might affect the ability of its appointed managers to achieve their performance objectives. The Trustee will also meet with its appointed managers on a regular basis.

The Trustee will monitor the performance of the managers against their agreed performance objectives. This monitoring takes into account both short-term and long-term performance. With the exception of the passive LGIM Developed Balanced Factor Equity Index Fund, monitoring and selection of managers is carried out by Aon Investment Limited (AIL) under the delegated pooled investment solutions. The Trustee receives, on a quarterly basis, a consolidated manager investment performance report, detailing the current valuation of assets held and performance achieved by each of the managers employed over the period.

The Trustee will consider regularly the continued appropriateness of its managers. If the Trustee is not satisfied with a particular manager for any reason, it may then remove and appoint another.

Cash Flow and Collateral Risks

Cash flow risk arises from the need to realise assets in the short term. If disinvestments to meet the benefit outgo were to be made at a time when prices are depressed this could reduce the likelihood of meeting the primary objectives. To avoid this, the Trustee and its advisers manage the Scheme's cash flow requirements carefully over the short-term.

Collateral sufficiency risk arises when there are insufficient assets available to support the leveraged part of the Trustee's inflation, interest rate and other hedging or protection programmes. The Trustee has a monitoring process in place, which would trigger action to be taken to avoid collateral yield headroom falling below the minimum level as advised by the Scheme's investment advisor. Under the Investment Management Agreement with Schroders, Schroders has established protocols to ensure sufficient collateral is maintained. The Scheme's advisor additionally provides advice on collateral headroom where required.

Custody

Assets invested in pooled funds give the Trustee a right to the cash value of the units in the fund rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodians of the fund's assets.

The Trustee has appointed JP Morgan as Custodian of the Liability Driven Investment and Equity Derivative portfolios. Amongst other things, JP Morgan are responsible for the safekeeping of these assets, servicing, and execution of transactions in accordance with the custody agreement with the Trustee.

The Trustee receives a copy of the investment managers', custodians' and auditors' reports on their respective internal controls and procedures.

Expected Returns on Assets

Based on Aon's capital market assumptions as at the 30 September 2023, the Trustee's long-term expectations are to achieve a net return of 1.6% per annum in excess of that obtained on UK government bonds (or "gilts") over the period to 2027 when the Scheme is targeting to be fully funded on a technical provision basis.

Realisation of Investments/Liquidity

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

Responsible Investment and Stewardship

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its 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) may negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when reviewing the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Arrangements with Asset Managers

The Trustee regularly monitors the Scheme's investment managers to assess the extent to which their investment strategy and decisions are aligned with the Trustee's policies, focusing on financial as well as non-financial matters. The monitoring includes 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 Trustee is supported in this monitoring activity by their investment adviser.

The Trustee receives regular reports and verbal updates from the investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assesses the investment managers over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by their investment managers, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee shares the policies with the Scheme's investment managers, and requests that the investment managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new investment manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee 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 Scheme invests in a collective vehicle, then the Trustee will express their expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investments managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustee's 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 Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the investment 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 for all investment managers will be reviewed periodically, and at least every three years.

Cost Monitoring

Understanding Costs:

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

The Trustee collects annual cost transparency reports covering all of their investments and ask that the investment managers provide this data in line with industry standard templates. This allows the Trustee to understand exactly what they're paying their investment managers. The Trustee works with their investment adviser and investment managers to understand these costs in more detail where required.

Evaluation of performance and remuneration:

The Trustee assesses the performance of their investment managers on a quarterly basis and the remuneration of their investment managers on at least an annual basis via collecting cost data in line with industry standard templates.

Portfolio turnover costs:

The Trustee is aware of the portfolio turnover costs (portfolio turnover costs are defined as the costs incurred as a result of the buying, selling, lending or borrowing of investments) associated with their underlying investments through the information provided by their investment managers. The monitoring of the target portfolio turnover and turnover range is monitored annually with the assistance of the Scheme's investment adviser.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

Stewardship – Voting and Engagement

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the scheme and its beneficiaries. The Trustee will consider, with support from AIL, any new best practice guidance or regulations that arise from time to time for these matters (e.g., from the Regulator) and aim to adopt this, where appropriate.

The Trustee regularly reviews the suitability of the Scheme'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 investment managers. If an incumbent investment manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the investment manager and seek a more sustainable position but may look to replace the investment manager.

The Trustee reviews the stewardship activities of their investment managers on an annual basis, and upon appointment of a new manager, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's investment managers and ensure their investment managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's 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.

For the AIL delegated pooled funds, AIL considers active ownership – engagement and voting – to be a key part of the overall integration of ESG considerations into portfolio management. AIL carries out regular engagement with the appointed underlying managers in its portfolios via business-as-usual meetings with asset class specialist researchers, which may be broader in nature and might include ESG integration more generally, or via its engagement programme where the focus is on engagement with managers on core topics of investment stewardship, such as climate change, biodiversity loss and modern slavery. The Trustee believes these are important areas, which may have the potential to significantly impact the value of the Scheme investments, so support the themes within AIL's engagement programme as the Trustee believes this is in the members best interests. The Trustee will continue to receive regular updates from AIL on its engagement activities.

The Trustee 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 Scheme members on request.

The transparency for voting should include voting actions and rationale with relevance to the Scheme, 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 Trustee or the investment manager.

Where voting is concerned the Trustee expects their investment managers, to recall stock lending as necessary, in order to carry out voting actions.

From time to time, the Trustee 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 Trustee 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.

Members' Views and Non - Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme 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"[1]).

The Trustee will consider on a regular basis, and with support from their advisers, what further actions they could undertake to support the above objectives.

Additional Voluntary Contributions

Members of the Scheme have the opportunity to pay AVCs, which are invested and used to increase members benefits. The Trustee establishes the arrangements under which these contributions are invested. The Trustee's objective is to provide investment vehicles that enable these members to generate suitable returns, consistent with their circumstances and reasonable expectations. The Trustee considers that it has made available a suitable range of options to meet these expectations.

Effective Decision Making

The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. It also recognises that where it takes investment decisions, there must be sufficient expertise and appropriate training to be able to evaluate critically any advice received. The Trustee receives regular investment training from its investment advisor, Scheme actuary and investment managers in order to make informed decisions.

Approved and agreed by Celltech Pension Trustees Ltd, as Trustee of the Celltech Pension & Life Assurance Scheme

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018