THE NUTRICIA LIMITED STAFF PENSION SCHEME
STATEMENT OF INVESTMENT PRINCIPLES

October 2021

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1 INTRODUCTION

This Statement of Investment Principles ("the Statement") has been prepared by Cow and Gate Pension Trustees Limited as Trustee of The Nutricia Limited Staff Pension Scheme ("the Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustee to ensure the effective implementation of these principles. The Statement also details the Trustee's compliance with the Pension Regulator's 'Investment Guidance for Defined Benefit Pension Schemes'.

In preparing the Statement, the Trustee has:

- obtained and considered written advice from a suitably qualified person by obtaining written advice from its Investment Adviser, Mercer Ltd ("Mercer"), whom it believes to have a degree of knowledge and experience that is appropriate for the management of its investments; and
- consulted with the Sponsoring Employer (the "Sponsor") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements and, in particular, on the Trustee's objectives. Although it affirms that no aspect of its strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustee's investment policy for the Scheme.

The Trustee will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustee will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

2 PROCESS FOR CHOOSING INVESTMENTS

The Trustee has appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution, to implement the Trustee's strategy whereby the level of investment risk reduces as the Scheme's funding level improves. In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). At the time of writing, the Trustee is awaiting further analysis following the conclusion of the latest Actuarial Valuation, after which it is expected that Mercer will provide a recommendation on de-risking triggers.

MGIM has appointed Mercer Global Investments Europe Limited ("MGIE")) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis.

In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of 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 Act (as amended).

3 INVESTMENT OBJECTIVES

The Trustee understands that taking some investment risk, with the support of the Sponsor, is necessary to improve the Scheme's current funding position. The Trustee recognises that investment in return seeking ("growth") assets, like equities, will bring increased volatility of the funding level, but in the expectation of improvements in the Scheme's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustee's primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due. In doing so, the Trustee also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustee recognises this is likely to ultimately mean investing in a portfolio of bonds but believe that at the current time investment in equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustee recognises that this carries meaningful investment risk and these risks are considered below.

The Trustee has agreed that the Scheme should move progressively towards a target of an entirely bond based investment strategy ("Matching Portfolio") as its funding level increases. The Trustee will monitor progress against this target.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determine to be financially material considerations. Non-financial considerations are discussed in section 6.

The Trustee has also received confirmation from the Scheme Actuary during the process of revising the investment strategy that its investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used for the Statutory Funding Objective.

4 RISK MANAGEMENT AND MEASUREMENT

Under the Pensions Act 2004, the Trustee is required to state its policy regarding the ways in which risks are to be measured and managed. These are set out below.

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management is as follows:

- The primary risk upon which the Trustee focus is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- The Trustee recognises that whilst taking 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 volatility in the Scheme's funding position.
- To control the risk outlined above, the Trustee, having taken advice, set the split between the Scheme's Growth and Matching Portfolio such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 3. As the funding level improves, investments will be switched from the Growth Portfolio into the Matching Portfolio with the aim of reducing investment risk.

- Whilst moving towards the target funding level, the Trustee recognises that even if the Scheme's assets are invested in the Matching Portfolio there may still be a mismatch between the interest rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. To control this risk the Trustee has delegated the asset allocation decisions within the Diversified Growth Fund (the main return seeking asset in the Growth Portfolio) to Mercer and Mercer will periodically recommend changes to the Scheme's overall fixed weight target allocation as may be required from time to time. Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustee with regular monitoring reports regarding the level of diversification within the Trustee's portfolio.
- To help the Trustee ensure the continuing suitability of the current investments, Mercer provides the Trustee with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets the scope for achieving added value is more limited. The Trustee's investment portfolio is predominantly passively managed.
- To help diversify manager specific risk, within the context of each of the Growth and Matching Portfolios, the Trustee expects that the Scheme's assets are managed by appropriate underlying asset managers.
- By investing in the Mercer Funds, the Trustee does not make investments in securities that are not traded on regulated markets. However, should the Trustee Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure) such investments would normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustee would ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.
- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.
- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 9 sets out how these risks are managed.
- Responsibility for the safe custody of the Scheme's assets is delegated to Mercer who has appointed State Street Custodial Services (Ireland) Limited as custodian of the assets invested in their vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

Should there be a material change in the Scheme's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the de-risking strategy, once in place, remains appropriate.

5 INVESTMENT STRATEGY

5.1. SETTING THE INVESTMENT STRATEGY

The Trustee, with advice from the Scheme's Investment Consultant and Scheme Actuary, considered the Scheme's investment strategy prior to the production document. At a high level, this review considered the Trustee's investment objectives, its ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies). The decision was taken to move to an interim investment strategy, broadly replicating the characteristics of the previous investment strategy, with further investment strategy discussions expected to take place over 2021 and 2022.

The investment strategy will be formally reviewed on a triennial basis alongside the actuarial valuation process, with an approximately qualitative review undertaken to ensure that the triggers set remain appropriate and they will be amended if required.

Responsibility for monitoring the Scheme's asset allocation, and undertaking any rebalancing activity, is delegated to Mercer, in line with the Investment Management Agreement.

5.2. REALISATION OF INVESTMENTS

The Trustee is permitted to invest across a wide range of asset classes.

The Trustee on behalf of the Scheme hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

5.3. CASH FLOW AND CASHFLOW MANAGEMENT

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Scheme's assets in line with the Scheme's strategic allocation. Mercer is responsible for raising cash flows to meet the Scheme's requirements.

5.4. REBALANCING

As noted, responsibility for monitoring the Scheme's asset allocation and any rebalancing activity is undertaken by Mercer. Mercer reviews the actual balance between the Growth and Matching portfolios on an ongoing basis. If at any time the balance between the Growth and Matching portfolios is deemed to be outside an agreed tolerance range Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced growth portfolio weighting, under the new de-risking band, as defined in the Statement of Investment Arrangements.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustee and Mercer, and unless specifically agreed, any assets outside of the Growth and Matching Portfolios will not be part of such rebalancing.

6 ESG, STEWARDSHIP, AND CLIMATE CHANGE

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 may require explicit consideration.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate environmental, social, and corporate governance ("ESG") factors, including climate change considerations, and exercise 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 consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, is expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

Member views

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

Investment Restrictions

The Trustee has not set any investment restrictions in relation to particular Mercer Funds.

7 MONITORING OF INVESTMENT ADVISER AND MANAGERS

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 5, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expect Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in section 5. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustee receives, and considers, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustee is invested. Such reports will have information covering fund performance for the previous three months, one year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 6 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustee is a long-term investor and is not looking to change their investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors, and evaluates, the fees they pay for asset management services on an ongoing basis taking into account the progress made in achieving their investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Scheme's annualised, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustee does not have an explicit targeted portfolio turnover range, given the expectation of a de-risking mandate, but rebalancing ranges are designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

8 COMPLIANCE

The Scheme’s Statement of Investment Principles is publically available on the Danone website using the link below. In addition to this, the annual report and accounts are available to members on request.

https://www.danone.co.uk/impact/policies-and-commitments.html

A copy of the Scheme’s current Statement is also supplied to the Sponsoring Employer, theScheme’s auditors and the Scheme Actuary.

This Statement of Investment Principles, supersedes all others and was approved by the Trustee on ....

Signed on behalf of the Trustee by	....	....
On	....	....
Full Name	....	....
Position	....	....