Lion Group Pension Plan (the “Scheme”)

Statement of Investment Principles (the “SIP”) for the Defined Contribution Section of the Scheme

INTRODUCTION

This Statement of Investment Principles (“SIP”) has been prepared for the Trustees of the Lion Group Pension Plan (“the Scheme”) in consultation with the Scheme’s sponsoring employer Lion Laboratories Limited (“the Employer”). This SIP relates only to the Defined Contribution (Money Purchase) section of the Scheme for accrual after 31 December 1996. A separate SIP has been produced for the Defined Benefit (Final Salary) section of the Scheme in relation to accrual of benefits before 1 January 1997. This SIP is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and any and all other relevant legislation and regulations. The Trustees also comply with the requirements to maintain and take advice on the SIP and with disclosure requirements and take account of The Pensions Regulator best practice guidance. The Scheme’s assets are held in trust for the Scheme by the Trustees, whose powers of investment are set out in the Trust Deed and Rules and any subsequent amendments.

The Trustees have obtained written advice from their previous Investment Adviser, Creative Benefit Solutions Limited, on the investment strategy. Their current adviser, XPS Investment Limited, has advised on the production of this SIP. Where not explicit, the policies and principles set out below should be taken to refer to both the Scheme as a whole and its default arrangement.

This SIP is made available to members of the Scheme on request and to the Investment Manager(s).

INVESTMENT OBJECTIVES

The Trustees’ key objectives are to enable members to build up and secure appropriate retirement benefits while being exposed to an acceptable level of investment risk.

In order to do that the Trustees have set up a default investment strategy as well as alternative self-select investment options.

The objective of the default investment strategy (the “BAQ GLOBAL 60:40 10 YEAR LIFESTYLE STRATEGY”) is to provide long term returns above wage inflation, as measured by the Average Weekly Earnings (“AWE”) Index, after charges in the early years with gradual automatic switching into lower risk investments over the 10 year period up to the Scheme Normal Retirement Age.

The objective of the alternative self-select options is to allow members who decide the BAQ GLOBAL 60:40 10 YEAR LIFESTYLE STRATEGY is not appropriate, to manage their pension investment at an alternative risk level and/or to invest in alternative assets classes.

RISKS

The Trustees are required to assess the investment risks to the Scheme’s assets, including measurement of those risks. In doing this the Trustees aim to take account of the members’ circumstances. Specifically the Trustees have identified the following risks:

Members' Attitude to Risk

The Trustees have taken advice on the likely distribution of members' attitude to risk and selected a default investment strategy that is aimed to match the majority of expected members' attitude to risk over the term to Normal Retirement Age. However, the Trustees have also made available alternative investment options to allow members to invest at alternative risk levels. Investment risk is primarily measured in terms of the volatility of the underlying investments.

Members' Term to Retirement

The Trustees are aware of the risk that market movements in the years prior to retirement might lead to a substantial reduction in the value of the funds that could otherwise have been built up. In setting the default strategy the Trustees have included automatic investment risk reduction for members approaching Normal Retirement Age.

In addition the Trustees have made available alternative risk investment options on a self-select basis.

Pension Conversion Risk

This is the risk that the funds in a member's Accumulated Fund are not invested appropriately for the timing of when a member wants to take benefits from the Scheme or the method by which they want to take those benefits. The Trustees measure this risk by taking account of the experience within the Scheme as well as data available for the whole of the UK pension industry. The Trustees have designed the default strategy to target conventional lifetime annuity purchase after 25% tax free cash lump sum (Pension Commencement Lump Sum, PCLS) payment at the Scheme member's Normal Retirement Date, but have made alternative self-select options available to members to allow them to manage the timing and form of their retirement benefits in alternative ways.

Inflation Risk

Inflation reduces the purchasing power of an investment over time. The Trustees measure inflation in line with the increase in the Consumer Price Index ("CPI") and monitor the returns of the default strategy and the alternative self-select investment options against that.

Investment Manager Risk

This is the risk that a given investment manager fails to meet the agreed mandate for the investment. The performance of the Investment Manager against their mandate is assessed by various performance measures including volatility, returns and investment style.

Liquidity Risk

The assets of the Scheme need to be available when required to pay benefits and there is a risk that some investments may not be realisable at the appropriate time. This is measured by how often the investment is valued and how quickly any investment can be sold (in part or in full).

Concentration Risk

This is the risk that adverse conditions affecting a particular market or asset might significantly influence the overall performance of the Scheme's investments, especially where there is a large exposure to a single asset or market. This is measured by the proportion of the Scheme's assets held in a particular asset or market with specific reference to the sub-funds used in the default strategy, but also the proportion of the overall Scheme assets.

Currency risk

This is the risk of investment loss as a result of movements in foreign exchange rates as a result of investment in assets held in currencies other than Sterling. This is measured by the proportion of the Scheme's assets held in non-Sterling currencies as well as the split of those overseas currency holdings that are not hedged back into Sterling.

Operational Risk

This is the risk of fraud, poor advice or acts of negligence. The Trustees assess this by various measures including experience, competency and financial strength of third party service providers, such as the Investment Manager.

SELECTING INVESTMENTS

The Trustees are responsible for defining and monitoring the overall investment strategy in conjunction with its Investment Adviser and in consultation with the Employer. However, the Trustees delegate day-to-day management of the assets to Royal London Asset Management Limited ("the Investment Manager").

The Trustees have set the default investment strategy and also alternative investment options that members can self-select. If a member does not make any investment selection they will be automatically invested in the default strategy until or unless they self-select an alternative option.

The Default

The default investment is the BAQ GLOBAL 60:40 10 YEAR LIFESTYLE STRATEGY (see Appendix 1 for full details) and is designed to be appropriate for a typical member with a clearly defined retirement age and an overall balanced attitude to risk where members are prepared to take a higher level of risk in the early years to benefit from the expected higher levels of investment return with risk gradually being reduced down over the final 10 years to Normal Retirement Age.

The BAQ GLOBAL 60:40 10 YEAR LIFESTYLE STRATEGY has therefore been benchmarked against the ABI Pensions Global Equities sector average during the "Growth Phase". The Growth Phase is the period up to 10 years from Normal Retirement Age (NRA). For members with less than 10 years to NRA the BAQ GLOBAL 60:40 10 YEAR LIFESTYLE STRATEGY gradually reduces the level of investment risk so that at the NRA the member is 25% invested in the RLP Deposit fund and 75% invested in the RLP Long (15yr) Gilt fund. This approach will be reviewed on an ongoing basis to ensure the final phase of de-risking remains appropriate for the membership and the experience of how members choose to take their benefits at retirement.

The BAQ GLOBAL 60:40 10 YEAR LIFESTYLE STRATEGY may not be suitable for members who retire before or after their NRA, or wish to draw their benefits using a method other than taking a 25% tax free lump sum and purchasing a conventional lifetime annuity with the remaining fund.

Alternative Investment Options

The Trustees are aware that the default strategy may not be appropriate for all members. The Trustees have therefore made alternative investment options available on a self-select basis.

It is the Trustees' policy to provide suitable information for members so that they can make appropriate investment decisions. The range of investment options was selected by the Trustees after taking advice from the Trustees' Investment Adviser and after taking consideration of the follow points:

- A range of asset classes
- The need for diversification
- The suitability of each asset class for different members
- Operational Risk

The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced, authorised and regulated by the Financial Conduct Authority (where appropriate) and that suitable liability and compensation clauses are included in all contracts for professional services received. The Investment Manager is also assessed based on its independent financial strength ratings.

The Trustees monitor the performance of the investments and Investment Manager against pre-set benchmarks and the mandates for the underlying investments.

The Trustees' policy is to use pooled investment funds (i.e. investment in unitised collective investment funds) and not to hold any direct investments.

Policy on Illiquid Assets

The role of Illiquid assets within all aspects of the strategy has been considered by the Trustees. The Trustees' policy is to consider the benefits of all available asset classes when constructing the default investment strategy. This is to seek to improve member outcomes through improved risk-adjusted returns. At present, the Default Arrangement has no allocation to illiquid assets. This is due to prior decisions on appropriate levels of charges for members, the need to better understand the risk and reward profile of that asset class, and the implementation costs of introducing the asset class onto the investment platform used by the Trustees. The Trustees will monitor the asset class and will, in conjunction with training and research from their Investment Adviser, determine whether there are suitable, future opportunities to invest in illiquid assets.

GOVERNANCE

The Trustees of the Scheme are responsible for the investment of the Scheme assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and advice in order to make an informed decision. The Trustees have established the following decision making structure:

Trustees

- Set the structures and processes for carrying out its role
- Select appropriate experts to provide advice as and when required
- Set the structure for the implementation of the investment strategy

- Select and monitor the planned asset allocation strategy for the default strategy
- Review the self-select fund range and default strategy on a regular basis
- Monitor the Investment Manager(s) and investment Custodian(s)
- Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy

Investment Adviser

- Advises on all aspects of the investment of the Scheme's assets, including implementation
- Negotiation of fee terms and contractual terms
- Advises on this SIP
- Ensures that it delivers advice that is compliant with the requirements of the Financial Conduct Authority where required

Investment Managers & Custodians

- Operate within the terms of this SIP and their written contracts
- Selects individual investments with regard to their suitability

Scheme Administrator

- Administrative and operational liaison with the Investment Managers and Custodians
- Scheme secretarial and reporting liaison with the Investment Manager and Custodians

The Trustees expect the Investment Managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this SIP so far as is reasonably practicable.

The Trustees accept that the assets are subject to the Investment Manager's and Custodian's own corporate governance policies. However, the Trustees expect the Manager and Custodian to discharge their responsibilities by taking account of current best practice, which includes the UK Corporate Governance Code and the UK Stewardship Code. The Investment Manager's policies are monitored on a regular basis.

INVESTMENT MANAGER ARRANGEMENTS

Delegation to Investment Manager(s)

In accordance with the Pensions Act 1995 (as amended), the Trustees may appoint one or more Investment Managers and delegate to them the responsibility for investing the Scheme's assets in a manner consistent with this Statement.

The Investment Managers are authorised and regulated to provide investment management services to the Scheme. Within the UK, the authorisation and regulation of the Investment Managers falls under the Financial Conduct Authority (FCA). Specific products in which the Scheme invests may also be regulated by the Prudential Regulatory Authority (PRA). For non-UK Investment Managers, authorisation and regulation is undertaken by the home state regulator.

Where Investment Managers are delegated discretion under section 34 of the Pensions Act 1995, the Investment Managers will exercise their investment powers with a view to giving effect to the principles contained in this Statement so far as reasonably practicable. In particular, the Investment Managers must have regard to the suitability and diversification of the investments made on behalf of the Scheme.

The Investment Managers will ensure that suitable internal operating procedures are in place to control individuals making investments for the Scheme.

Performance objectives

The Trustees monitor the performance of the investments and Investment Manager against pre-set benchmarks and the mandates for the underlying investments.

Review Process

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustees' investment policies. Fund manager remuneration is considered as part of the review process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Alignment of interests

Based on the structure set out in Appendix I, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through asset allocation parameters set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations, including the selection / deselection criteria set out below.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights, on the basis that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail in the section on ESG investment policy, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

Selection / Deselection criteria

The criteria by which the Trustees will select (or deselect) the Investment Managers include:
> Parent - Ownership of the business;
> People - Leadership/team managing the strategy and client service;
> Product - Key features of the investment and the role it performs in a portfolio;
> Process - Philosophy and approach to selecting underlying investments including operational risk management and systems;
> Positioning - Current and historical asset allocation of the fund;

> Performance - Past performance and track record;
> Pricing - The underlying cost structure of the strategy;
> ESG - The consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.

An Investment Manager may be replaced, for example (but not exclusively), for one or more of the following:
> The Investment Manager fails to meet the performance objectives;
> The Trustees believe that the Investment Manager is not capable of achieving the performance objectives in the future;
> The Investment Manager fails to comply with this Statement.

Investment Managers' fee structure

The Investment Managers are remunerated by receiving a percentage of the Plan's assets under management.

It is felt that this method of remuneration provides appropriate incentives for the Investment Managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustees.

Portfolio turnover

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

DAY-TO-DAY MANAGEMENT OF ASSETS

The Trustees have taken steps to ensure that the Investment Manager and Custodian have the appropriate experience for managing the Scheme's investments and they are carrying out their work competently.

The Trustees have delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant Investment Manager through a written contract. When choosing investments, the Trustees and the Investment Manager (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The Investment Managers' duties also include voting and corporate governance in relation to the Scheme's assets.

The Investment Manager is remunerated on a percentage charge basis related to the amount of assets under management.

The investment custodian is HSBC Bank plc, which administers the assets for the Investment Manager.

REALISATION OF ASSETS

The Trustees will realise assets as required following member requests on retirement or other circumstances defined in the Scheme rules. In selecting assets the Trustees consider the liquidity of the investments in the context of the likely needs of members.

ENVIRONMENTAL SOCIAL AND GOVERNANCE (ESG) INVESTMENT POLICY

The Trustees recognise that ESG considerations (including climate change) can have a material financial impact on the Scheme's investments. The Trustees have considered ESG issues with their Investment Adviser and will evaluate and manage these risks when setting the Scheme’s investment strategy and in the selection and retention of their investment managers.

The Trustees have reviewed risks by reference to an ‘appropriate time horizon’ for the Scheme’s investments, which the Trustees have defined as the median average term to the Scheme’s Normal Retirement Age for members.

The Trustees have a preference for passive index tracking underlying investment management utilising Pooled Funds for the default strategy.

This is underpinned by the Trustees’ core belief that the primary driver of long term investment returns is asset allocation (as opposed to individual stock/investment selection), as well as the expectation that passive management reduces the risk of significant underperformance relative to the market being tracked and minimises investment expenses.

As such the Trustees believe that passive investment management for each underlying market sector provides better value for money for Scheme members.

While the Trustees generally favour passive underlying investment management, they do recognise that there are certain areas where passive management is not available, or appropriate.

When reviewing the Scheme funds available to members, the Trustees will consider the ESG policies adopted by the underlying fund manager.

The Trustees will aim to review this ESG policy on an annual basis and at least every 3 years. The Trustees will review compliance with the ESG policy on an annual basis and report this to members. In doing so the Trustees, with the assistance of their Investment Adviser, will consider not only the direct Investment Managers’ funds, but also the managers of relevant sub funds.

Voting and stewardship

The Trustees expect the Investment Manager and their sub fund managers to adhere to the UK Stewardship Code and for the sub fund managers to be signatories to the Principles for Responsible Investment (PRI) Association. The Trustees will also consider how the Investment Manager and any sub fund managers exercise their rights (including voting rights) in relation to the underlying investments they hold in line with the UK Stewardship code.

In pursuit of these aims, the Trustees will communicate this policy to the Scheme’s Investment Manager. The Trustees expect the Scheme’s Investment Manager will check adherence to the UK Stewardship code in relation to the sub funds they use.

The Trustees, with the assistance of their Investment Adviser will provide a copy of this policy and any subsequent updates to the Scheme’s Investment Manager with the aim of exerting influence as regards the above key issues in their interactions with the sub fund managers. Additional engagement may take the form of additional meetings and communications between the Investment Managers and the Trustees; although the Trustees may delegate this to their Investment Adviser on their behalf.

The Trustees will also take into account non-financial factors in the selection and retention of the funds available to members and have utilised the experience of their Investment Advisers in that respect. Whilst the Trustees expect that many members would identify with some, if not all, ESG related issues, to date there has been no significant feedback from members to this effect. The Trustees also recognise that for the majority of members, these are likely to be secondary to risk adjusted returns. The current wide self-select fund range made available to members include several fund options that invest according to ESG principles.

In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustees may periodically meet with their investment managers to discuss engagement which has taken place. The Trustees will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustees on the stewardship credentials of their managers. The Trustees will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustees recognise the Code as an indication of a manager's compliance with best practice stewardship standards.

MONITORING

The Trustees will monitor compliance with the SIP annually. In particular they will seek written confirmation from the Investment Manager that they have complied with this SIP as supplied to them and the Trustees undertake to advise the Investment Manager of any material change to the SIP.

The Trustees intend to review this SIP annually, but will do so at least every three years and immediately following any significant change in investment policy. The Trustees will take expert investment advice over any changes to the SIP.

For and on behalf of the Lion Group Pension Plan Trustees

Signed: ………………………………… **Date:** …………………………………