

The Alcon UK Pension Scheme ("the Scheme")

Statement of Investment Principles ("the Statement")

Scope of Statement

This Statement 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 effective date of this Statement is 18 September 2020. The Trustees will review this Statement and the Scheme's investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

Consultations made

The Trustees have consulted with the employer, Alcon Eye Care UK Limited, prior to writing this Statement and will take the employer's comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of The Alcon UK Pension Scheme. They have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited who are authorised and regulated by the Financial Conduct Authority.

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 appointed investment managers and is available to the members of the Scheme.

Objectives and policy for securing objectives

The Trustees' objectives for setting the investment strategy of the Scheme have been set with regards to the Scheme's Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees' primary objectives have been provisionally set as follows:

- "funding objective" - to ensure that the Scheme is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- "stability objective" - to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy; and
- "security objective" - to ensure that, where an actuarial valuation deficit is identified, the solvency position of the Scheme is expected to improve. The Trustees will take into account the strength of employer's covenant when determining the expected improvement in the solvency position of the Scheme.

The Trustees recognise 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 which the employer may find too difficult to support. The Trustees also recognise 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 cashflow requirements, the funding level of the Scheme and the Trustees' objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment (or delegation where these powers have been delegated to an investment manager) in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk, a spread of assets is held. The diversification is both within and across the major asset classes.

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

The assets of the Scheme are invested predominantly in regulated markets (with investments not in regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is made only 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 Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation. They therefore retain responsibility for setting the Scheme's overall asset allocation and take expert advice as required from their professional advisers.

The Trustees review their investment strategy in conjunction with each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). The Trustees take written advice from their professional advisers regarding an appropriate investment strategy for the Scheme.

A broad range of available asset classes in which to invest has been considered by the Trustees. This includes consideration of so called "alternative" asset classes, for example, property, private equity and hedge funds.

Investment risk measurement and management

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

Risks associated with changes in the employer covenant are assessed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy).

The Trustees also have an agreement with the employer to receive notification of any events which have the potential to alter the creditworthiness of the sponsoring employer. In particular, the Trustees will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator, and employer-related Notifiable Events. On receipt of such notification, the Trustees will re-consider the continued appropriateness of the Scheme's existing investment strategy.

The Trustees monitor the risks arising through the selection or appointment of their investment manager on a quarterly basis via investment monitoring reports prepared by their investment manager and their investment consultant. The Trustees expect there may be some deviation from the benchmark for passive mandates and monitor this regularly. The Trustees have appointed Aon Solutions UK Limited to alert them on any matters of material significance that might affect the ability of their investment managers to achieve its objectives.

The Trustees acknowledge that investment returns achieved outside the expected deviation (positive or negative) may be an indication that the investment manager is taking a higher level of risk than indicated.

For due diligence purposes the Trustees will meet with the investment managers from time to time in order to discuss investment performance.

Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The investment managers are responsible for the appointment and monitoring of the custodians of the funds' assets.

Expected returns on assets

Over the long-term the Trustees' expectations are:

- for the real assets (UK equities, overseas equities and diversified growth funds), to achieve a return which at least keeps pace with the increase in national average earnings over the same period. The Trustees are willing to incur short-term price volatility with the expectation that over the long term these real assets will outperform the other major asset classes.
- for index-linked gilts, to achieve a rate of return which is at least in line with price inflation, and short-term price behaviour in line with the cost of providing index-linked annuities.
- for the fixed-interest corporate bonds to achieve a rate of return which is at least in line with changes in the cost of providing fixed income annuities.

Aon Hewitt's current expected nominal return assumptions for the next 10 years, as taken from their 'Capital Market Assumptions' dated 31 March 2020, are as follows:

- UK inflation – CPI 2.1% pa / RPI 2.8% pa
- UK equities – 7.2% pa
- 15-year UK index-linked gilts – -0.2% pa
- 15-year UK fixed income gilts – 0.4% pa
- 10-year UK investment grade corporate bonds – 1.4% pa

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustees in consultation with their advisers and fund managers.

Realisation of Investments/Liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise. All of the assets held are realisable at short notice through the sale of units in pooled funds.

Effective decision making

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

The Trustees believe that given the size of the Scheme and the small number of Trustees, a separate investment sub-committee would not be appropriate. Therefore, all investment decisions are discussed by the whole Trustee body before decisions are taken. The Trustees seek assistance from their Investment Consultant where they deem it to be necessary.

Environmental, Social and Governance considerations

The Trustees' primary concern when setting the investment strategy is to act in the best financial interests of the beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustees believe that, in order to fulfil this commitment and to protect and enhance the value of the Scheme's investments, they must act as responsible stewards of the investments.

The Trustees acknowledge that financially material considerations include environmental, social and corporate governance (ESG) factors, such as climate change. Understanding these factors can help identify investment opportunities and financially material risks.

As part of their delegated responsibilities, the Trustees expect the investment managers to include ESG considerations in the selection, retention and realisation of investments. Such decisions should consider, amongst other things, the sustainability of business models and not be influenced by personal, ethical or moral judgments.

The Trustees are taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustees will undertake periodic training on Responsible Investment to understand how ESG factors, including climate change, may impact on the Scheme's assets and liabilities.
- As part of ongoing monitoring, the Trustees will use information, where available, provided by Aon of their assessment of the investment managers against ESG factors.
- On an annual basis, the Trustees will ask the investment managers to provide their policy on Responsible Investment to include details of how they integrate ESG in their investment decision making process. Should the Trustees look to appoint a new manager, they will request this information as part of the selection process. All responses will be reviewed and monitored.

Stewardship - voting and engagement

The Trustees recognise the importance of their role as a steward of capital and the need to ensure high 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 Trustees regularly review the suitability of the Scheme's appointed investment managers and take advice from their investment consultant regarding any changes. Where applicable, this advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustees expect, the Trustees undertake to engage with the manager and seek a more sustainable position and may look to replace the manager.

The Trustees review the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions, and will include this information within the Engagement Policy Implementation Statement (EPIS). The Trustees will review the alignment of their policies to those of the investment managers and look for the managers, or other third parties, use their influence as major institutional investors to carry out the Trustees' 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 to promote good corporate governance, accountability, and positive change.

The Trustees will engage with the investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustees 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. When a concern is identified, the Trustees will engage with the investment consultant to consider the methods by which, and the circumstances under which, they would monitor and engage with the investment manager and other stakeholders.

Members' views and non-financial factors

The Trustees do not explicitly take the views of members and beneficiaries of the Scheme into account in relation to ESG factors or the present and future quality of life of the members and beneficiaries of the Scheme (defined as 'non-financial factors' in the 2018 Regulations). The Trustees will review this policy on an annual basis.

Arrangements with investment managers

The Trustees monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustees' policies.

Where the Scheme invests in funds that are regularly reviewed by the Trustees' investment consultant, the Trustees use conclusions drawn from these assessments on a quarterly basis to determine whether the funds and investment managers remain suitable.

Where the Scheme invests in funds that are not regularly reviewed by the Trustees' investment consultant, the Trustees review these funds on an annual basis and conduct a review of the strategy, with the support of the investment consultant.

The above monitoring includes the extent to which investment managers:

- make decisions based on assessments about medium- to long-term 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 Trustees receive quarterly reports and verbal updates from the investment consultant on various items including the investment strategy, performance and longer-term positioning of the portfolio. The Trustees' focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives and assess the investment managers over the long-term.

In line with the required actions from the Pensions Regulator, on an annual basis the Trustees will produce an EPIS which will also be included in the annual reports and accounts.

Before appointment of a new investment manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies. Where possible, the Trustees 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 Trustees will express their expectations to the investment managers.

The Trustees believe that having appropriate governing documentation, setting clear expectations to the investment managers (where possible), and regular monitoring of investment managers' performance and investment strategy, is sufficient to incentivise the investment managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial performance.

Where investment managers are considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically first engage with the 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 if material causes for concern are identified. Where the Scheme holds closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Cost monitoring

The Trustees are 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 Trustees recognise that in addition to annual management charges, other costs will be incurred by their investment managers that will increase the overall cost incurred by their investments.

The Trustees collate cost data to facilitate monitoring portfolio turnover costs and engaging with asset managers as required. The Trustees work with the investment consultant and investment managers to understand these costs in more detail where required.

The Trustees are aware of 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 investment consultant.

The Trustees accept 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 if consistent with the asset class characteristics and manager's style and historic trends. Where the Trustees' monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustees are supported in cost transparency monitoring activity by the investment consultant.

The Trustees assess the performance of their investment managers on a quarterly basis and the remuneration of their investment managers on an annual basis.

Additional Voluntary Contributions (“AVCs”) Arrangements

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of AVCs currently open to members are equal to the value of the investments bought by the contributions.

From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

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Mr X Romeu

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Signature

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Date

