1. Introduction

1.1 Purpose of statement

This statement sets out the principles governing the investment policy of the L'Oreal (UK) Ltd Retirement Benefits Plan ("the Plan") in accordance with Section 35 of the Pensions Act 1995 as amended by Section 244 of the Pensions Act 2004 and in accordance with the Occupational Pension Plans (Investment) Regulations 2005.

The effective date of this Statement is **September 2020**.

1.2 Advice about this statement

This statement has been prepared by the Plan Trustees, with the assistance of the Trustee investment sub-committee. The Trustees have obtained and considered appropriate written advice. In particular, the Trustees have obtained advice on the content of this statement from Aon Solutions UK Limited who are authorised and regulated by the Financial Conduct Authority and have considered that advice. Aon Solutions UK Limited has confirmed to the Trustees that they have the appropriate knowledge and experience to give this advice. In drawing up the asset allocation and investment restrictions the Trustees have also taken advice as part of an asset liability study carried out by Aon Solutions UK Limited.

1.3 Employer consultation

The Trustees have consulted with the principal employer (L'Oreal (UK) Ltd) about the content of this statement. However, neither the Trustees nor any manager to whom they delegate any discretion shall require the consent of the principal employer to exercise any investment power.

1.4 Interaction with trust deed and legislation

This statement does not conflict with the Trustees' powers of investment as set out in the Plan's Trust Deed and Rules or by law.

1.5 History & review

The Trustees will review this statement at least every three years and immediately after each significant change in investment policy, taking note of any changes in the Plan's liabilities. Once agreed, and after consultation with the principal employer, a copy of this statement will be given to the Plan actuary, will be made available to Plan members on request and will be published on a publicly accessible website.

Previous versions of this statement are as follows:

Version 1.0 – effective May 2002
Version 2.0 – effective Sept 2007
Version 3.0 – effective Jan 2010
Version 4.0 – effective June 2013
Version 5.0 – effective December 2015
Version 6.0 – effective April 2017
Version 7.0 – effective August 2018
Version 8.0 – effective July 2019

2. Investment strategy

2.1 Primary funding and investment objectives

The Trustees' principal aim is to ensure that sufficient funds are available to provide benefits as and when required by the Plan rules.

Subject to this principal aim, the Trustees' investment objectives are:

- To ensure Plan assets are held securely.
- To ensure that the liquidity of Plan assets is appropriate given the nature of Plan liabilities.
- To maximise the investment return on Plan assets **relative to the Plan's liabilities**, subject to an acceptable level of risk.
- To act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

The Trustees consider the views of the Plan's principal employer when determining how Plan assets should be invested.

2.2 Types of investment

The Plan invests mostly in pooled funds, other collective investment vehicles and cash.

The Trustees have made the decision to invest the majority of assets in pooled funds because:

- The Plan is not large enough to justify direct investment on a cost-effective basis.
- Pooled funds allow the Plan to invest in a wider range of assets, which serves to reduce risk; and
- Pooled funds provide a more liquid form of investment than certain types of direct investment.

The Plan has also taken out an insurance policy with Just Retirement Limited (Just). The Policy is designed to closely match the liabilities for the Covered Members and eliminate the interest rate, inflation and longevity risk to the Plan for these liabilities, while creating a contingent exposure to the continued solvency of Just. The Trustees have taken advice from Aon Risk Settlement Group and are comfortable with Just from a solvency position.

2.3 Security of investments – custody arrangements

All Plan assets are held by the appropriate appointed custodian with the exception of Additional Voluntary Contribution (AVC) arrangements (see section 12).

Whenever possible, the choice of investment funds takes into account the provisions of the Company Charter (see section 2.7 below) regarding the credit rating of fund-appointed custodians and Plan appointed custodian.

2.4 Liquidity

The Plan's liabilities cover a period of at least 50 years. The Trustees acknowledge that the deficit recovery contributions will be dependent on the contingency funding plan from January 2019. The Trustees will put in place a cash flow management policy to ensure the Plan has sufficient liquidity to meet benefit payments.

2.5 Asset allocation

The Trustees, having sought advice from the Plan actuary, their investment advisers, and have undertaken an asset liability study and have determined a strategic asset allocation framework set out in Appendix 2. This framework:

- Sets out the asset classes in which the Plan may invest – namely equities, bonds, property and cash.
- Sets out the minimum and maximum holdings within each asset class; and
- Sets out the benchmark against which the overall performance of Plan investments will be compared.

In determining the strategic asset allocation, the Trustees have taken into account:

- The funding position of the Plan and the nature of the Plan's liabilities.
- The Trustees' and the employer's attitude to risk.
- The employer's attitude towards funding costs; and
- The strength of the employer's covenant.

2.6 Risk measurement and management

The Trustees measure investment risk in a number of different ways:

- In deciding on pooled funds to be held, the Trustees will take into account the risk of possible fluctuations in the values of the units in these funds, which will depend on the particular type of asset class in which the fund invests and the way in which the funds are managed.
- The Trustees also appreciate that certain classes of asset are more closely matched to the liabilities of the Plan. Therefore the Trustees will consider not just the absolute risk associated with a particular class of asset, but also the relative risk of the asset class, in relation to Plan liabilities.
- The Trustees consider the investment risks to include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. As part of the formal triennial actuarial valuation, the Plan Actuary provides an indication of the sensitivity of the Plan's funding position to changes in the assumed future investment return.

Risk is managed by:

- Investing in a diverse range of asset classes, appreciating that investing in less correlated asset classes can reduce expected risk whilst maintaining expected return.
- Investing in pooled funds which themselves invest in a variety of assets.
- Investing in liability matching assets which behave in a similar fashion to the Plan's liabilities.
- Investing in an insurance policy, which reduces volatility in the future funding level of the Plan (and accompanying Company contribution requirements in the future), as the buy-in policy effectively matches the benefits in relation to the relevant members, including eliminating the interest rate, inflation and longevity risk for these members.
- Regularly monitoring both investment performance and the Plan's funding position.
- Taking advice from their investment adviser when setting the Plan’s asset allocation and when considering the approach to selecting underlying managers and monitoring performance.

2.7 Charter for the management of pension plan assets

The Trustees have taken into consideration the guidelines set out by the principal employer in the "Charter for the management of pension plan assets" (Company Charter) when determining the Plan's investment strategy and manager appointments. Details of the Company Charter are set out in Appendix 1.

3. Appointment of an investment adviser

The Trustees have appointed Aon Solutions UK Limited to advise on the management of Plan assets, including setting the investment strategy and selecting suitable funds to invest in. However the Trustees retain ultimate responsibility for the investment of Plan assets.

Aon Solutions UK Limited are paid an agreed annual fee which includes all services needed on a regular basis. Some one-off projects fall outside the annual fee and the fees for these are negotiated separately. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustees have engaged an investment adviser because:

- They believe that the investment adviser is skilled in selecting suitable pooled funds.
- The investment adviser can monitor the performance of the selected pooled funds more regularly than the Trustees could.
- The investment adviser has the resources to monitor a wide range of pooled funds; and
- The investment adviser has the skill to actively monitor the overall asset allocation of the portfolio, subject to the agreed asset allocation framework with the objective of enhancing investment return, and to recommend changes to asset allocation.

4. Investment monitoring

The Trustee investment sub-committee meets quarterly to monitor the performance of the portfolio as a whole, based on information provided by the investment adviser. The ongoing compliance of investment activities with this statement is also monitored at this meeting.

The investment adviser monitors the performance of individual funds on at least a quarterly basis, discussing specific investment issues with individual fund managers as they arise.

4.1 Expected investment return

The overall investment return of the portfolio will be benchmarked against an agreed Plan-specific benchmark, based on underlying manager benchmark returns.

The Trustees will also monitor the overall absolute performance of the portfolio against the rate of investment return assumed by the Plan actuary at the most recent actuarial valuation. This allows the Trustees to gauge, in broad terms, how the investment performance has impacted on the Plan's funding position.

5. Investment management fees

The investment managers of the pooled funds in which the Plan invests will charge fees to the pooled funds themselves. The level of these fees will be one of the criteria taken into account by the Trustees when reviewing the Plan's holdings in pooled funds.

The investment return of the portfolio is calculated net of all investment management fees.

6. Realisation of investments

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 fund manager through a written contract.

7. Arrangements with Investment Managers

The Trustees regularly monitor the Plan’s investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustees' policies, including those on non-financial matters. This includes monitoring 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 Trustees are supported in this monitoring activity by their investment adviser.

The Trustees receive 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 Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan objectives and assess the investment managers over rolling 3-year periods.

The Trustees share the policies, as set out in this SIP, with the Plan's investment managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustees' policies.

Before appointment of a new investment manager, the Trustees, with the assistance of their investment adviser, 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 Plan invests in a collective vehicle, then the Trustees will express their expectations to the asset managers in by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustees believe that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers’ performance and investment strategy, is in most cases 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 and non-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, with the assistance and advice of their investment adviser, 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 will be reviewed periodically.

8. Cost Transparency

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 Plan's assets. The Trustees recognise 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 Trustees collect annual cost transparency reports through a third party, ClearGlass, covering all of their investments and ask that the investment managers provide this data in line with the appropriate Cost Transparency Initiative (“CTI”) template for each asset class. This allows the Trustees, with the assistance of their investment adviser, to understand exactly what they're paying their investment managers. The Trustees work with their investment adviser and investment managers to understand these costs in more detail where required.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers’ fund holdings change over a year. The Plan’s investment adviser monitors this on behalf of the Trustees as part of the manager monitoring they provide to the Trustees, and flags to the Trustees where there are concerns.

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 as long as it is consistent with the asset class characteristics, manager's style and historic trends. Where the Trustees monitoring identifies a lack of consistency the mandate will be reviewed.

The Trustees evaluate the performance of the Plan's investment managers relative to their respective objectives on a regular basis via their investment monitoring reports and updates from the investment managers. The Trustees also review, with the assistance of their investment adviser, the remuneration of the Scheme’s investment managers to ensure that these costs are reasonable in the context of the kind and balance of investments held.

9. Environmental, Social and Governance Considerations

The Trustees further acknowledge that an understanding of financially material considerations including environmental, social and corporate governance (ESG) factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

As part of their delegated responsibilities, the Trustees expect the Plan's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

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

- As part of ongoing monitoring of the Plan's investment managers, the Trustees will use ESG ratings information provided by Aon, where relevant and available, to monitor the level of the Plan's investment managers' integration of ESG on a regular basis.

- The Trustees will request all of the Plan's investment managers to provide their Responsible Investment policy and details of how they integrate ESG into their investment decision making process on an regular basis. Should the Plan look to appoint a new manager, the Trustees will request this information as part of the selection process. All responses will be reviewed and monitored with input from their investment consultant.

Generally speaking, investment choices take into consideration the provisions of the Company Charter favouring the "Best in Class" approach and the investment exclusions it contains (see Appendix 1 below).

10. Stewardship – Voting and Engagement

The Trustees recognise 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 Plan invests, as ultimately this creates long-term financial value for the Plan and its beneficiaries.

The Trustees regularly review the suitability of the Plan'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 managers. If an incumbent manager is found to be falling short of the Trustees' policies, expectations, or other considerations set out in this SIP, the Trustees will, with the assistance and advice of their investment adviser, typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

The Trustees receive annual stewardship reports on the engagement and voting actions carried out by the Plan's investment managers, which supports the Trustees in determining the extent to which the Plan's engagement policy has been followed throughout the year. The Trustees will review, with the assistance of their investment adviser, the alignment of the Trustees' policies to those of the Plan's investment managers and ensure their 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 and assets to promote good corporate governance, accountability, and positive change.

The Trustees will engage with their investment managers as necessary for more information, with the assistance of their investment adviser, 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 Plan members on request.

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

From time to time, with the assistance of their investment adviser, the Trustees 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 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.

11. Members' Views and Non-Financial Factors

In setting and implementing the Plan's investment strategy the Trustees do not explicitly take into account the views of Plan 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]).

12. AVCs

AVC investments are managed separately from the main Plan assets.

AVC arrangements have been established with a number of different providers.

Since April 2006 no new AVC arrangements can be set up with the plan. Active members who started paying AVCs before this date can continue to contribute to these arrangements. All AVCs remain invested within the Plan and will be used to provide additional benefits for relevant members on retirement.

The Trustees review the AVC investment arrangements periodically.

13. Adoption

[redacted]

Name (Print)	Signature	18.09.20 Date

[redacted]

Name (Print)	Signature	24.9.20 Date

[redacted]

Name (Print)	Signature	24/09/20 Date

[redacted]

Name (Print)	Signature	24/09/2020 Date

Signed for and on behalf of the L'Oreal (UK) Ltd Retirement Benefits Plan

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

Appendix 1 – Company Charter

The information below is taken from the Company Charter. The Trustees have taken into consideration the above guidelines when determining the Plan's investment strategy and manager appointments.

Equities

- No more than 5% of equities to be held in the shares of a single company.
- L'Oreal shares must not represent a proportion in excess of their share in the reference index used as the benchmark for this asset class.
- Maximum 50% of the portfolio.
- Ensure a balanced geographic and sector breakdown.

Bonds

- No bonds rated lower than BBB- can be included in the portfolio.
- At least 65% of the bond investments must have a rating equal or higher than A-.
- No more than 5% of the bond investment should be with securities of the same issuer (does not include sovereigns).
- Ensure a balanced range of maturities.

Property

- Investment is only permitted in funds, not direct investment.
- Maximum 15% of the portfolio.

Hedge Funds

- Only multi-strategy, fund-of-hedge-fund investments allowed having a limited liability legal form.
- No leverage allowed in the overall fund of fund, except for liquidity purposes.
- Maximum 5% of the portfolio.
- Other restrictions set out in Company Charter.

Cash and monetary instruments

- Maximum of 10% of the portfolio.
- Issued by debtors with a minimum A1 rating.

Derivatives

- Held only for hedging and risk reduction purposes.

Responsible Investment and Environmental, Social and Governance (ESG) considerations

- Rely on the managers' expertise to analyse and determine the ESG rating of the companies or investment vehicles in which they invest on our behalf.
- Adopt an investment policy aimed at:
    - Favouring the "Best in class" approach, which consists of investing in the best-rated companies in their sector of activity in order to achieve an ESG rating of our funds that is better than that of their benchmark index.
    - Exclude from our investment universe, companies in the following sectors:
        - Armaments sector: Exclusion of any investment in controversial weapons manufacturers (Ottawa Convention and Oslo Treaty and Chemical and Biological Weapons Conventions). This includes anti-personnel mines, cluster munitions, biological and chemical weapons, depleted uranium, and the use of white phosphorus.

    - Tobacco sector: Total exclusion of any investment in securities issued by electronic tobacco and cigarette manufacturers.
    - Coal sector: There are two main families of coal: metallurgical coal and thermal coal. Metallurgical coal, which is characterized by a low Sulphur content, is mainly used in the blast furnace for steel production. There is currently no more environmentally friendly solution to the use of iron ore and metallurgical coal. On the other hand, thermal coal is used in electricity production and the CO2 emissions resulting from its combustion are on average twice as high as those of natural gas. The use of metallurgical coal does not generally lead to exclusion.
      The exclusion (without threshold) will therefore concern any investment in:
        1. Securities issued by thermal coal mining companies,
        2. Securities issued by public or private utility companies that produce electricity from thermal coal combustion.
- Implement at the level of each entity an ESG reporting (at least half-yearly or quarterly) in order to gradually improve the analysis of these funds with regard to our ESG criteria and their ESG rating.

Custodians

- Minimum credit rating of A/A2/A (Standard & Poor's/Moody's/Fitch) during the entire investment holding period.
- Must be an entity that is legally separate from the asset management entity.

Appendix 2 – Strategic Asset Allocation and Parameters

Asset Class	Strategic Allocation	Minimum Portfolio Holding	Maximum Portfolio Holding
Equity	**10.0%**	**5.0%**	**15.0%**
Global Equity [1]	*10.0%*		
Property	**10.0%**	**5.0%**	**15.0%**
UK Commercial Property	*5.0*		
UK Residential Property	*5.0*		
Matching Portfolio	**80.0%**	**70.0%**	**90.0%**
Cash	**0.0%**	**0.0%**	**10.0%**

Note: The portfolio allocation may for short periods of time exceed the maximum portfolio holding when it is deemed inopportune to rebalance the portfolio back to strategic allocations.

[1] 100% currency hedged

Matching Portfolio Strategy

The Plan has an 80% allocation to the Matching Portfolio. The strategy comprises three elements:

1. Hedge Ratio – Targeting a 100% hedge on both the Plan's fixed and inflation-linked liabilities (on gilts + 0.4% actuarial basis), specifically those not covered by the Pensioner buy-in policy. This will be implemented through Liability Driven Investments (LDI).
2. Pensioner Buy-in policy – The Plan has taken out an insurance policy with Just Retirement Limited (Just). The Policy is designed to closely match the liabilities for the Covered Members and eliminate the interest rate, inflation and longevity risk to the Plan for these liabilities, while creating a contingent exposure to the continued solvency of Just. The risk on date of the policy was 15th May 2019.
3. Cash Collateral - To provide the source of liquid collateral for the leveraged element of the LDI portfolio and ensure sufficient liquidity to support benefit payments (where required).