Canon Medical Systems Limited Retirement Benefits Scheme

Statement of Investment Principles

October 2021

Contents

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of the Canon Medical Systems Limited Retirement Benefits Scheme ('the Scheme'). This Statement sets down the principles which govern the decisions about the investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustees have consulted the Canon Medical Systems Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustees will review this Statement at least every three years or if there is a significant change in any of the areas covered by the Statement.

1.5. The investment powers of the Trustees are set out in Rule 14 of the Definitive Trust Deed & Rules, dated 9 March 2009. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, and are responsible for stock selection and the exercise of voting rights.

2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to its performance within any guidelines set. The Trustees will also consult the Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustees' main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employer, the cost of current and future benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme can invest in a wide range of asset classes including equities, bonds, cash, property, alternatives (including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives) and annuity policies.

4.2. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3. The Trustees monitor from time-to-time the Employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflow requirements or other unexpected items.

5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the Employer and the size of the pension liability relative to the Employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the Employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Scheme and concluded that ESG factors as well as climate risk are potentially financially material. They will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). Each investment manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return, net of fees, and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustees monitor the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's investment managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the fund managers. The Trustees have considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, the exercise of rights and engagement activities and non-financial matters

Policy on financially material considerations

9.1. The Trustees believe that Environmental, Social and Governance ("ESG") factors, including but not limited to climate change, are financially material – that is, they have the potential to impact the value of the Scheme's investments from time-to-time. They believe ESG issues will be financially material for the Scheme over the length of time during which the benefits, provided by the Scheme for members, require to be funded to a level, which would allow the benefits to be bought out with an insurer. This is likely to be not less than five years from the date of this Statement of Investment Principles.

9.2. The Trustees have elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

9.3. The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below.

Passive equities

9.4. The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's passive equities over the Trustee's intended time horizon for the investment in question. The Trustees accept that fund managers must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG. The Trustees therefore require that the fund manager takes into account ESG considerations by engaging with companies and by exercising voting rights. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Diversified growth funds

9.5. The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's diversified growth fund holding over the Trustee's intended time horizon for the investment in question. The Trustees therefore require the fund manager to consider ESG issues when selecting investments. The Trustees recognise that the fund manager will hold a blend of underlying asset class and some of which, such as fixed income assets, do not typically provide voting rights; they support engagement with companies by the fund manager. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Passive gilts

9.6. The Trustees believe that ESG issues are not financially material to the risk-adjusted returns achieved by the Scheme's passive gilts. This is because gilts are considered "least risk" when constructing the investment strategy.

9.7. The Trustees are comfortable that the funds currently invested in by the Scheme are managed in accordance with their views on financially material factors, as set out above. Through their investment consultant the Trustees will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis. In the future, the views set out above will be taken into account when appointing and reviewing managers.

Policy on the exercise of voting rights and engagement activities

9.8. The Scheme currently invests in pooled investment funds only. The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the relevant fund managers. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

9.9. The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

9.10. Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustees will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

9.11. The Trustees acknowledge the importance of ESG and climate risk within their investment framework. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

9.12. The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

9.13. The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

9.14. The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

9.15. Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

9.16. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

9.17. The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

9.18. The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees, investment manager and the investee companies.

9.19. In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented

Policy for taking into account non-financial matters

9.20. The Trustees do not consider any non-financial matters, such as members' ethical views, social and environmental impact, or present and future quality of life of the members when constructing the investment strategy and/or when selecting or reviewing fund managers.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment polices

10.1. Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.

10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they may consider using another manager for the mandate.

10.3. The Trustees carry out a strategy review periodically where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

10.4. In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.5. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself.

10.6. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.7. The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

10.8. The Trustees monitor the performance of their investment managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.

10.9. The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

10.10. The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.11. The Trustees ask the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered from time-to-time.

Portfolio turnover costs

10.12. The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.13. During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

Duration of arrangement with asset manager

10.14. For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.15. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed assessed periodically as appropriate. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11. Agreement

11.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the investment managers, the actuary and the Scheme auditor upon request.

Agreed by the Trustees of the Canon Medical Systems Limited Retirement Benefits Scheme on 7 October 2021

Appendix Note on investment policy in relation to the current Statement of Investment Principles dated October 2021

1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Rebalancing

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

Asset Class	Allocation (%)
Growth Portfolio	**83**
Global Equities	58
Diversified Growth Fund	25
Protection Portfolio	**17**
Index-Linked Gilts	17
Total	**100**

This is subject to regular review in order to take account of the Scheme's liability profile, the strength of the employer covenant, and the Trustees' and Employer's attitude to risk.

2. Choosing investments

The Trustees have appointed the following investment manager to carry out the day-to-day investment of the Scheme:

- Legal and General Assurance (Pensions Management) Limited (Legal & General). Legal & General is responsible for the management of the policy and has appointed Legal & General Investment Management (LGIM) to manage the investments.

Legal and General Investment Management are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters in addition to advice received from the fund managers on suitability of investments.

The Trustees have additional voluntary contributions (AVCs) contracts with ReAssure and Friends Life for the receipt of members' AVCs. The AVC providers are authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority. These arrangements are reviewed from time to time.

3. Fee agreements

The fee arrangements with the investment managers are summarised in the Trustees' Investment Manager Arrangement Summary document.

4. Kinds of investments to be held

The Trustees have considered all asset classes and have gained exposure to the following asset classes:

- Index-linked UK government bonds
- Diversified growth funds
- Global equities

The investment benchmarks and objectives for each fund manager are given below:

LGIM Fund	Benchmark	Objective
All Stocks Index-Linked Gilts Index Fund	FTSE A UK Index-linked (All Stocks) Index	To track performance of benchmark to within +/- 0.25% p.a. for two years out of three
Dynamic Diversified Fund	Bank of England Base Rate +4.5%	To exceed benchmark over a full market cycle (5-7 years) before fees
Global Equity Market Weights (30:70) Index Fund – GBP 75% Currency Hedged	Composite of 30/70 distribution between UK and overseas, 75% GBP Hedged	To track the benchmark

The performance of fund managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

5. Investment and disinvestment of money

Investments and disinvestments are usually made so as to move the actual asset allocation more in line with the target asset allocation. If the growth portfolio is underweight, investment of money will be made into the Dynamic Diversified Fund.