Statement of Investment Principles

The Baxter Healthcare Pension Plan

September 2022

Introduction

1. The Baxter Healthcare Pension Plan (the 'Plan') is a Registered Pension Plan for the purposes of the Finance Act 2004. It is a defined benefit (DB) Plan, and also provides the facility for members to pay Additional Voluntary Contributions (AVCs).

2. This document is the Statement of Investment Principles ('SIP') made by the trustees of the Plan ("the Trustee") in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

3. Before finalising this SIP, the Trustee took written advice from the Plan's Investment Consultant (Legal & General Investment Management) and Actuary (Willis Towers Watson) and consulted Baxter Healthcare Limited (the "Company'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

4. The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy.

Plan objectives

5. For the DB section of the Plan, the Trustee has considered (amongst other factors) the nature of the Plan's liabilities and the Plan's Statutory Funding Objective (SFO) when deciding on its investment strategy.

   The Trustee's primary investment objective for the DB section is to be able to meet all members' benefits in full. In light of the Plan's strong funding position, the Trustee have a short to medium term objective to secure a buyout of the total Plan liabilities.

6. For the AVC section, the investment risk is borne by the member. The Trustee's primary investment objective for these sections is therefore to provide a range of investment options which broadly satisfy the risk profiles of all members.

7. The Trustee considers that the investment strategies shown on the following pages will ensure:

   - There is a reasonable expectation of meeting its investment objectives, and;
   - The assets are appropriately diversified

Investment strategy – DB section

8. The Trustee reviewed the Plan's investment strategy in 2022 and has adopted an investment strategy targeting an expected return of gilts + 0.50% pa net of fees, having taken advice from the Plan's investment consultant. The assets were transitioned to the new portfolio and on 9 August 2022, the Trustee held the overall asset strategy broadly as shown in the table below for the DB section. The allocation shown below may change over time due to disinvestment to meet ongoing cashflow requirements. The Trustee has decided to not rebalance between the portfolios so as to better match the Trustee's long term investment objectives for the Plan.

Fund	Central Allocation (%)
Diversified Portfolio	10
Bond Portfolio	90
Total	**100**

9. The strategies for the diversified and bond portfolios are shown in the tables below. The funds selected are all managed by Legal & General Investment Management (LGIM).

Diversified portfolio funds	Central Allocation %	Expected Return above cash as at 31 March 2022*
Diversified Fund	100.0	3.5%
Total	**100.0**	

<table>
<tr><th>Bond portfolio funds</th><th>Central Allocation %</th><th>Expected Return above cash as at 31 March 2022*</th></tr>
<tr><td>AAA-AA-A Bonds Over 15 year Index Fund</td><td>14.2</td><td rowspan="2">1.2%</td></tr>
<tr><td>Buy & Maintain Fund</td><td>15.0</td></tr>
<tr><td>2047 Gilt</td><td>2.2</td><td rowspan="5">0.0%</td></tr>
<tr><td>2053 Green Gilt</td><td>5.7</td></tr>
<tr><td>2060 Gilt</td><td>5.3</td></tr>
<tr><td>2065 Gilt</td><td>6.2</td></tr>
<tr><td>2071 Gilt</td><td>3.0</td></tr>
<tr><td>2032 Index-linked gilt</td><td>6.1</td><td rowspan="6">-0.7%</td></tr>
<tr><td>2037 Index-linked gilt</td><td>1.8</td></tr>
<tr><td>2040 Index-linked gilt</td><td>15.3</td></tr>
<tr><td>2042 Index-linked gilt</td><td>0.0</td></tr>
<tr><td>2047 Index-linked gilt</td><td>4.3</td></tr>
<tr><td>2050 Index-linked gilt</td><td>10.6</td></tr>
</table>

Bond portfolio funds	Central Allocation %	Expected Return above cash as at 31 March 2022*
2055 Index-linked gilt	0.0	
2058 Index-linked gilt	5.6	
2062 Index-linked gilt	2.1	
2068 Index-linked gilt	1.8	
2073 Index-linked gilt	0.6	
Total	**100.0**	

* Expected returns as estimated by LGIM based on their 10 year median returns above cash based on market conditions as at 31 March 2022.

10. The Plan will also hold assets in cash and other money market instruments from time to time as may be deemed appropriate. The Trustee policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Plan's overall investments, where possible. The Trustee, together with the Plan's administrators, will hold sufficient cash to meet benefit and other payment obligations. To avoid the disinvestment of assets, the Trustee may choose to use dividend payments from the Plan’s assets to meet benefit payments as they fall due. If ongoing dividend payments are insufficient to cover ongoing cashflow requirements, then the Trustee will disinvest from the Plan’s diversified portfolio.

Investment managers

11. In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Plan competently.

12. The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will, however, monitor the performance of each manager relative to its benchmark.

13. The Trustee has considered that good stewardship and environmental (including climate change), social and governance (“ESG”) issues may have a financially material impact on the Plan meeting its investment objective. As an investor in pooled funds, the extent to which ESG issues are taken into account in these decisions is left to the discretion of its investment managers in the exercise of their delegated duties.

14. The Trustee expects the investment managers to demonstrate good stewardship practices, and will review how its investment managers are performing in this area by considering investment managers’ disclosures on stewardship as provided to the Trustee, and discussing stewardship with investment managers at regular Trustee meetings.

15. The Trustee’s policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers exercise those rights in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

16. The Trustee deems the most “significant votes” cast by the investment managers to represent issues on which the investment manager decided to vote against management or where the vote was part of a wider engagement with the entity to reflect the Scheme’s stewardship priorities and

themes. The Trustee expects that significant votes will cover a range of relevant matters, including (but not limited to) climate change, biodiversity, diversity and ethnicity, remuneration and governance.

17. The Trustee considers the fees agreed with its investment managers incentivise the managers to provide a high quality service that meets the objectives of the Plan. The Trustee monitors its investment managers and would consider terminating any investment manager appointments that appear to be acting contrary to this SIP.

18. The Trustee expects investment managers, where appropriate, to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity in order to improve their performance in the medium to long-term.

19. The Trustee's policy is to evaluate its investment managers by reference to the manager's individual performance (over short, medium and longer-term periods), the role it plays in helping to meet the objectives of the Plan as set out above, and the fees paid to the investment manager.

20. The Trustee recognises that investment management generates portfolio turnover costs which are reflected in performance of the Plan's assets. The Trustee expects its investment adviser to include the consideration of portfolio turnover costs as appropriate when providing advice on the Plan's investments.

Managing risk

21. The Trustee recognise a number of risks involved in the investment of the Plan's assets:

Risk	How is it monitored?	How is it mitigated?
Deficit	▪ By assessing the progress of the actual growth of the liabilities relative to the selected investment policy	▪ By setting an investment policy with appropriate regard to the expected risk and return relative to the expected growth of liabilities
Manager	▪ Via the deviation of the return relative to the benchmark	▪ Investing in only passively managed funds
Liquidity	▪ By the level of cashflow required by the Plan over a specified period	▪ The Plan's administrators assess the level of cash required to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity
Currency	▪ Through the level of exposure to non-Sterling denominated assets	▪ Implementing a currency hedging programme to reduce the impact of exchange rate movements on the Plan's asset value
Interest rate and inflation	▪ By comparing the likely movement in the Plan's liabilities and assets due to movements in inflation and interest rates	▪ Holding assets that respond in a similar way to the liabilities to changes in inflation and interest rates
Sponsor	▪ By receiving regular financial updates from the Employer and periodic independent covenant assessments	▪ Through an agreed contribution and funding schedule

AVC Section – Investment options

22. The Trustee provides a range of investment options for members making AVCs. The Trustee delegates ESG considerations, and exercising rights and stewardship obligations attached to the Plan's investments to the AVC providers.

23. The current AVC funds available are provided by Standard Life and are shown below.

Fund	Type of asset	Total fund charge
Passive Plus III (Lump Sum) Strategic Lifestyle Profile	Lifestyle	0.60% to 0.63%
BlackRock Managed (50:50) Global Equity Pension Fund	Equities	0.615%
Managed Pension Fund	Mixed asset	0.62%
Annuity Targeting Pension Fund	Long bonds	0.61%
Deposit and Treasury Pension Fund	Cash like assets	0.61%

24. The Plan also has a number of legacy funds which are closed to new AVC investors. These include the Standard Life With-Profits Fund, Standard Life With-Profit 2006 Fund, Standard Life

US Equity Tracker Fund, Utmost Life & Pensions Secure Cash Investment Fund and Prudential Deposit Fund.

Mark Godden **5 December 2022**

Authorised for and on behalf of the Trustee of the Plan