Estée Lauder Benefit Plan

Statement of Investment Principles

This document is the Statement of Investment Principles (the 'Statement') for the Estée Lauder Benefit Plan (the 'Plan').

Background

This Statement has been drawn up by the Estée Lauder Trustee Company Limited (the 'Trustee'), the corporate trustee body for the Plan. It sets out the principles governing investment policies made by the Trustee in relation to the Plan.

This Statement should be read in conjunction with the related document entitled 'Investment Arrangements' which provides further detail on how the investment decisions are implemented. The Statement is also a legal requirement of the Pensions Acts 1995 and 2004, and the Occupational Pension Schemes (Investment) Regulations 2005 (collectively referred to as the 'Pensions Acts').

In preparing this document the Trustee has taken into account the requirements of the Pensions Acts. In addition this Statement is designed to fulfil the spirit of the pensions industry Code of Best Practice, published in 2001. The principles set out in this Statement are also consistent with the Trustee's Statement of Funding Principles.

The Statement will be reviewed every three years to ensure that it remains accurate and will be amended more frequently should any changes be made to the Plan's investment arrangements. The Trustee is committed to maintaining the accuracy of this Statement on an ongoing basis.

Investment Arrangements document

The following further pieces of information are covered in the Investment Arrangements document:

1. The types of investments and financial instruments that are used and the investment restrictions that apply

2. The current advisers and investment managers

Investment objectives

The Trustee's objective is to provide sufficient assets to pay benefits as they fall due by maintaining a funding level on the SFO (Statutory Funding Objective) basis of at least 100%.

The Trustee expects that over the long term the assets will produce a return sufficient to exceed the Scheme Actuary's investment return assumptions used in the actuarial valuation.

In order to achieve the return objective, the Trustee accepts that risk will be taken within the Plan's portfolio. The Trustee recognises that this will fluctuate over time as the composition of the portfolio changes and levels of risk in markets change.

Strategic Management

The current strategic asset allocation is set out in the table below:

<table>
<tr><th>Asset Class</th><th>Strategy
%</th><th>Rebalancing Range
%</th></tr>
<tr><td>Growth</td><td>12.0</td><td>+/- 5.0</td></tr>
<tr><td>Credit</td><td>12.0</td><td></td></tr>
<tr><td>Matching</td><td>88.0</td><td>+/- 5.0</td></tr>
<tr><td>LDI</td><td rowspan="2">88.0</td><td rowspan="2"></td></tr>
<tr><td>Liquidity</td></tr>
</table>

Risk management

The Trustee is aware of and pays close attention to a range of risks when investing the assets of the Plan.

The Trustee believes that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustee further believes that the current investment strategy is appropriate given the Plan’s liability profile.

The Trustee’s policy on risk management is as follows:

- The primary investment risk faced by the Plan arises as a result of a mismatch between the Plan’s assets and its liabilities. This is therefore the Trustee’s principal focus in setting the investment strategy.

- The Trustee recognises that whilst taking risk increases potential returns over a long period of time, it also increases the risk of a shortfall in returns relative to that required to cover the Plan’s liabilities as well as producing more short-term volatility in the Plan’s funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk through asset/liability analysis.

- The Trustee recognises that there is significant interest rate and inflation exposure in the Plan’s liabilities and have put in place a liability driven investment (“LDI”) portfolio to manage this. The Trustee recognises there are other demographic factors which could impact the value of the Plan’s liabilities which remain unhedged.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee believes that the investment strategy in place provides an adequately diversified distribution of assets.

- The Trustee recognises that the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk is outweighed by the potential gains from successful active management and, therefore, some of the Plan’s assets are normally managed on an active basis.

- The Trustee recognises that there is a degree of currency risk within the Plan's credit portfolios.

- The documents governing the investment managers' appointment include a number of guidelines. These guidelines were reviewed at outset to ensure that a suitable combination of investments are held within each portfolio.

- Arrangements are in place to monitor the Plan's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the investments. To facilitate this, the Trustee receives regular reports from the Plan's Investment Advisers. The reports are reviewed with the Investment Advisers who provide advice as required. In addition, the Investment Advisers and the Trustee receive reports from the investment managers to enable the Investment Advisers to report to the Trustee. These reports include an analysis of the overall level of return to ensure the risks taken and returns achieved are consistent with those expected.

Should there be a material change in the Plan's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the risk profile remains appropriate.

Investment Policy

The investment policy falls into two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustee, and (2) the day-to-day management of the assets, which has been delegated to professional investment managers.

Strategic Management

The investment strategy has been framed after consideration of the Plan's assets and liabilities. The broad investment strategy is to have enough growth assets to produce the agreed required return, with the remainder of the assets invested in a Liability Driven Investment or "LDI" strategy. The LDI strategy better matches the underlying liabilities and hence mitigates some of the Plan's interest rate and inflation risk.

The growth assets have higher volatility relative to the Plan's liabilities and are invested in credit funds.

The Trustee has a rebalancing policy in place that aims to keep the Plan's investment strategy broadly in line with the target allocation as set out in the 'Investment Arrangements' document.

Day-to-day Management of the Assets

The Trustee delegates the day-to-day management of the Plan's assets to professional investment managers. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Plan's investments.

The Plan's current investment managers, along with further details on the investment strategy are set out in the 'Investment Arrangements' document. A copy of this document is available on request.

The Trustee has determined, based on expert advice, a strategic benchmark allocation for the Plan's assets, which includes an agreed target allocation to each investment manager.

The Trustee regularly reviews the continuing suitability of the Plan's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time.

Use of derivatives

As part of the overall consideration of investments the Trustee has agreed that derivatives may be used for risk management and for the efficient implementation of the investment strategy. Any use of derivatives will be subject to agreed guidelines. All of the derivatives are currently held through pooled investment vehicles.

ESG, Stewardship, and Climate Change

The Trustee believes that Environmental, Social, and Governance (ESG) factors do have a material impact on investment risk and return outcomes, and that good stewardship helps create and preserve value for companies and markets as a whole.

The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

Given the investments are in pooled funds, the Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights obligations attached to the Plan's investments.

With regards to stewardship, the Trustee wishes to encourage best practice in terms of corporate activism. It therefore encourages its investment managers to discharge their responsibilities in respect of investee companies in accordance with relevant legislation and codes.

The Trustee has delegated the exercise of voting rights to the Plan's appointed investment managers, on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the investment managers have produced written guidelines of their process and practice in this regard.

The Trustee wishes to encourage best practice in terms of active engagement with entities in which they invest. The Trustee has given the investment managers full discretion when undertaking such engagement activities and encourages the Plan's investment managers to discharge their responsibilities in respect of investee companies in accordance with the principles underlying the UK Corporate Governance Code and the UK Stewardship Code, in respect of all resolutions at annual and extraordinary meetings. The Trustee will review the investment managers' policies and engagement activities (where applicable) on an annual basis.

Where investments are made on a passive basis, whilst the manager has no discretion over the selection of individual shares or bond issues (as the manager seeks to match the composition of the benchmark index as closely as possible) the Trustee expects managers to have good stewardship over the investments and vote in line with their own corporate governance policy.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers, and monitoring existing investment managers. ESG ratings are included as part of the quarterly reporting in order for the Trustee to understand the level of ESG integration within the Plan.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

Investment Manager Appointments

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class in which they invest.

The Trustee considers its Investment Adviser’s forward-looking assessment of a manager’s ability to outperform over a full market cycle. This view is based on an assessment of the manager’s idea generation, portfolio construction, implementation and business management in relation to the particular investment fund that the Plan invests in.

The Trustee will consider how ESG and stewardship are integrated into the investment process as well as ensuring fees are competitive within the asset class. The Trustee considers the Investment Adviser’s manager research ratings when taking decisions on selection and retention of manager appointments.

If the investment objective for a particular manager’s fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee’s wider investment objectives.

As the Trustee invests in pooled investment vehicles, it accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates have been selected to align with the overall investment objective.

Monitoring Investment Managers

The Trustee receives regular investment manager performance reports on a quarterly basis, which present performance information over a variety of time periods. The Trustee review the absolute and relative performance (against a suitable benchmark index), and against the manager’s stated performance target.

The Trustee maintains a focus on long term performance. It may review a manager’s appointment if the manager has extended periods of underperformance, there is a material change in personnel or there is other news that may severely impact the outcome of the investment.

Manager fees are calculated as a percentage of assets under management. If managers fail to meet their performance objectives, the Trustee may ask managers to review their fee.

The Trustee may meet with investment manager if they are dissatisfied with their performance or engagement activity, and may choose to terminate the relationship with the manager if they see fit.

Portfolio Turnover Costs

The Trustee receives MiFID II reporting from their investment manager but does not analyse the information. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask managers to report on portfolio turnover cost.

Investment Manager Turnover

The Trustee is a long-term investor and is not looking to change investment arrangements on a frequent basis. For open-ended funds invested in credit, there is no set duration for the manager appointments. The Trustee will generally retain an investment manager unless:

- There is strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the Trustee has decided to terminate the specific mandate.

Investments held directly by the Trustee

The Pensions Acts distinguish between investments which are purchased directly by the Trustee (‘direct investments’) and investments where management is delegated to an investment manager under a written contract. An example of the former would be the purchase of an insurance policy by the Trustee (e.g. additional voluntary contributions policies), where there is no investment management agreement.

When deciding whether to make any new direct investments the Trustee will obtain written advice from their Investment Adviser. They will also consider whether future decisions about those investments should be delegated to an investment manager.

The Trustee’s policy is to review its direct investments and to obtain written advice about them at regular intervals.

This written advice will cover the issues set out in the Pensions Acts and the principles contained in this Statement.

Governance arrangements

There are a number of parties involved in the Plan’s investment arrangements namely

- Trustee
- Investment Sub-Committee
- Scheme Actuary

- Investment Adviser
- Investment managers
- Providers of direct investments

The Trustee has ultimate responsibility for the management of the Plan and its investments but delegates a number of decisions and responsibilities to specialist advisers and investment managers.

The Trustee confirms that all parties to whom they delegate responsibility have the appropriate knowledge and experience required to take on this role. The Trustee expects each party to carry out the duties delegated to them with a view to giving effect to the principles in this statement, so far as is reasonably practical.

The Trustee has set guidelines and restrictions within which their advisers and investment managers can act. Appendix A sets out more detail on how the responsibilities are divided between the parties involved.

Fee basis for service providers

The Trustee uses a range of fee arrangements which may include performance related fees, fees as a percentage of the assets managed or liabilities hedged and fixed fees. The choice of fee basis will depend on a number of factors, including the level of the fees offered and the alignment of interests that the fees give with the Trustee's objectives. The Investment Adviser is paid an annual retainer fee to cover regular services. For any additional services, a fixed fee is typically agreed in advance.

Process for agreeing and reviewing this Statement

Advice received

The Trustee has obtained written advice on the content of this statement from its Investment Adviser. It will also take written advice on any future major changes to the Statement.

The Trustee is satisfied that the Investment Adviser has the knowledge and experience required by the Pensions Acts to perform this role.

Consultation

The Trustee has consulted the sponsoring employer, Estée Lauder Companies, on the content of this Statement and will consult with the Sponsoring Employer on future changes.

Compliance and review

The Trustee will monitor compliance with this Statement regularly and in any event will review this Statement at least every three years and immediately following any significant change in investment policy.

Trustee **Trustee**

Date **Date**

For and on behalf of the Estée Lauder Benefit Plan

APPENDIX A – Investment responsibilities of different parties

The division of investment responsibilities for the Plan is set out below. This list is not meant to be exhaustive.

Trustee

The Trustee has ultimate responsibility for decision-making on investment matters. The Trustee's investment responsibilities include:

- Deciding on an appropriate governance structure for the management of the Plan including the role of advisers and other third parties
- Setting appropriate investment objectives, following advice from the Investment Adviser and Scheme Actuary
- Agreeing the range of investment types and managers to be used to achieve the investment objectives, taking account of the need to manage risks
- Monitoring the appropriateness and performance of the investment managers, advisers and other parties involved in the Plan's investment arrangements
- Consulting with the sponsoring employer when reviewing major investment issues
- Monitoring the Plan's compliance with the pensions industry's Code of Best Practice
- Reviewing the content of this Statement at least every three years and following any significant change in investment strategy
- Modifying this Statement, if deemed appropriate, in consultation with the sponsoring employer and with written advice from the Investment Adviser
- Monitoring compliance with this Statement on an ongoing basis

Investment Sub-Committee

The Investment Sub-Committee's responsibilities include:

- Considering and making recommendations to the Trustee in relation to strategic investment issues including investment objectives, risk tolerance asset classes and new investments
- The Investment Sub-Committee also has the ability to take certain decisions on behalf of the Trustee, to the extent delegated to them by the Trustee and as set out in the Investment Sub-Committee Terms of Reference
- Identifying the training needs of its members and the Trustee members who are not also Investment Sub-Committee members, on an annual basis
- Monitoring existing investment managers and making recommendations to the Trustee on the replacement or appointment of investment managers
- Considering and making recommendations to the Trustee in relation to changes in AVC providers

The Investment Adviser

The Investment Adviser's role includes the following responsibilities:

- Advice on setting investment objectives
- Advice on investment strategy advice and asset allocation
- Providing performance measurement services, typically through monthly and quarterly reporting to the Trustee.
- Risk modelling process (including asset liability management)
- Designing and recommending investment solutions appropriate to the characteristics of the Plan
- Advice with regard to investment manager selection and portfolio construction
- Advice covering mandate definition and negotiation
- Asset class, investment manager and risk monitoring and reporting
- Advice and monitoring of the AVC arrangements
- Trustee investment training and education
- Advice relating to investment governance and compliance
- Advice on this Statement
- Advice and assistance with transition management
- Advice relating to potential conflicts of interest, including their own

Scheme Actuary

The key aspects of the Scheme Actuary's role that have a bearing on investment decisions include:

- Liaising with the Investment Adviser on the suitability of the Plan's investment strategy given the liabilities of the Plan
- Ensuring consistency between the Statement of Funding Principles and the Trustee's investment objectives and investment strategy
- Assessing the funding ratio of the Plan by performing valuations and advising on the appropriate contribution levels
- Providing data to enable decisions about hedging liability risks to be taken and implemented
- Estimating the cashflows of the Plan, to be used in the calculation of the value of liabilities
- Advice relating to potential conflicts of interest, including their own

Investment managers

The investment managers' responsibilities include:

- Managing the assets delegated to them within the terms of their agreement with the Trustee
- Providing regular reports on their performance, including proving performance relative to any agreed benchmark and performance targets

- Ensure that they are complying with the requirements applicable to them in this Statement. In particular, when investing the assets delegated to them they must be invested in the best interests of members and beneficiaries. Their powers of investments must be exercised so as to ensure the security, quality, liquidity and profitability of the portfolio as a whole