The John Dewar & Sons Limited 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 15 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 or without delay after any significant change in investment policy.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. A separate document, the Schedule of Investment arrangements, detailing the specifics of the Scheme's investment arrangements is available upon request.

Consultations made

The Trustees have consulted with the principal employer, John Dewar & Sons Limited (the "Company"), prior to writing this Statement and will take the Company's comments into account as appropriate.

The Trustees are responsible for the investment strategy of the John Dewar & Sons Limited Pension Scheme ("the 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 ("Aon") 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 that are authorised and regulated by the Financial Conduct Authority. A copy of this Statement will be provided to the investment managers appointed, is available to the members of the Scheme and will be published on a publicly accessible website.

Objectives and policy for securing objectives

The Trustees' primary funding objective is to ensure there are sufficient assets available in the Scheme to meet the benefits in full as they fall due. The Trustees' primary objectives for setting the investment strategy of the Scheme are set out below:

- "funding objective" - to ensure that the Scheme has sufficient assets available to pay members' benefits as and when they arise using assumptions underlying the calculation of the Scheme's technical provisions. Where an actuarial valuation reveals a funding deficit, a recovery plan will be put in place which will seek to remove the deficit over a period determined by the financial covenant of the employer;
- "security objective" - to ensure that 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 required expected improvement in the solvency position of the Scheme; and
- "stability objective" - to have due regard to the employer's ability in meeting its contribution payments given their size and incidence, and to have due regard to the volatility of measures of funding and security.

The investment strategy chosen by the Trustees aims to maximise the likelihood of achieving these objectives. 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 cash flow requirements, the funding level of the Scheme and the Trustees' objectives.

It is the Trustees' intention to ensure the assets of the Scheme are invested in the best interests of the members and beneficiaries. A broad range of available asset classes has been considered.

The Trustees exercise their powers of investment 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. Day-to-day selection of stocks is delegated to investment managers appointed by the Trustees. As regards the review and selection of their investment managers, the Trustees take expert advice.

Investment in derivatives is only made 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 its objectives) arises from asset allocation. They therefore retain responsibility for setting asset allocation, and take expert advice as required from their professional advisers.

The Trustees review their investment strategy following each triennial 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.

The Scheme's strategic asset allocation is set out in the Schedule of Investment Arrangements.

Investment risk measurement and management

The key investment risks are recognised as arising from investment strategy, employer failure and investment managers.

Investment strategy risks

The key investment strategy risks are recognised as arising from asset allocation. These risks, and the continued appropriateness of the existing investment strategy, are assessed triennially in conjunction with the formal actuarial valuation of the Scheme. The Trustees may additionally agree, on occasion, to assess the asset allocation risks in more detail.

As part of each annual funding assessment, the Trustees check the funding and investment strategy remains on target to achieve the Trustees' objectives within acceptable parameters. If not, then corrective action is considered. Additional funding assessments will be carried out, as the Trustees deem appropriate.

Employer failure risks

Risks associated with the employer's covenant are assessed in conjunction with each triennial actuarial valuation of the Scheme by obtaining detailed information from the employer and monitored through regular financial reports from the employer.

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 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 changes in the Company covenant by monitoring changes in the Company's Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy).

Investment manager risks

The Trustees regularly monitor and review the risks arising through their selection of investment managers.

The investment performance of the selected managers is monitored on a quarterly basis via quarterly investment monitoring reports prepared by Aon. Expected deviation from the benchmark (for a passive manager) or out-performance target (for an active manager) is detailed in the Schedule of Investment Arrangements. The Trustees acknowledge that investment returns achieved out with the expected deviation (positive or negative) may be an indication that the investment manager is taking a higher level of risk than indicated.

The continued suitability of the selected investment managers is kept under regular review. The Trustees have appointed Aon to alert them to any matters of material significance that might affect the ability of their appointed managers to achieve their performance objectives. The Trustees will also meet with their appointed managers if alerted to any potential issues by Aon.

Cash flow risks

Cash flow risk arises from the need to realise assets in the short term. If realisations of investments in order to meet the benefit outgo were to be made at a time when prices are depressed this could reduce the likelihood of meeting the primary objectives. To avoid this, the Trustees and their advisors manage the Scheme's cash flow requirements carefully over the short-term.

Custody

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

The custodians are independent of the employer.

Expected returns on assets

Over the long-term the Trustees' expectations are:

- for the "matching" assets to achieve a rate of return which mirrors the change in liabilities of an equivalent exposure.
- for the "growth" assets, to achieve a return which at least exceeds the returns achieved by matching assets. In doing so the Trustees are willing to incur short term volatility in "growth" asset price behaviour.
- for the "annuity" assets, the return achieved is not of primary importance since these assets are held to secure future cashflows over an indeterminable time period to match selected pensions in payment liabilities.

Returns achieved by the Scheme 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. The majority of the assets held by the Scheme are realisable at short notice (through the sale of units in pooled funds).

Responsible Investment

In setting the Scheme's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This risk includes:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance. As part of Aon's monitoring process, managers are reviewed and rated regularly in a number of areas, including ESG.

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 scheme invests, as this ultimately creates long-term financial value for the scheme and its beneficiaries.

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- where appropriate, engage with investee companies with the aim to enhance the long-term value of assets; and
- exercise the Trustees voting rights in relation to the Scheme's assets.

The Trustees regularly review the continuing suitability of the appointed managers and takes advice from the 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. The Trustees review the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions. Where the Trustees identify significant concerns relating to performance, strategy, risks, social and environmental impact, corporate governance, the capital structure or management of conflicts of interest, of a fund manager or other stakeholder; they will consider the methods by which they would monitor and engage with such a fund manager or other stakeholders.

The Trustees will review the alignment of the Trustees' policies to those of the Scheme'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 the investment managers (relevant persons) as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned (relevant matters).

Members' Views and Non-Financial Factors

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

Arrangements with Investment Managers

The Trustees recognise that arrangements with their fund managers are important to ensure that interests are aligned. The Trustees seek to ensure that the fund managers are incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

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.

The Trustees are supported in this monitoring activity by their investment adviser.

The Trustees receive quarterly reports and verbal updates from the investment advisers 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 objectives, and assess the investment managers over 3-year periods.

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

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 expectation to the investment managers 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 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 all for investment managers will be reviewed periodically, and at least every three years.

Monitoring of Investment Manager Costs

The Trustees are aware of the importance of monitoring the investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise

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

that in addition to annual management charges, there are other costs incurred by investment managers that can increase the overall cost incurred by their investments.

The Trustees accept that transaction costs will be incurred to facilitate investment returns and that the level of these costs varies across asset classes and by manager investment 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 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 their cost transparency monitoring activity by their investment adviser.

The Trustees have engaged ClearGlass to collect annual cost transparency reports 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 to understand exactly what they’re paying their investment managers. The Trustees work with their investment consultant and investment managers to understand these costs in more detail where required.

The Trustees are aware of the 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 to their underlying investments through the information provided by their investment managers.

Evaluation of Investment Manager Performance and Remuneration

The Trustees assess the (net of all costs) performance of their investment managers on a rolling three-year basis against the Scheme's investment objectives.

Additional Voluntary Contributions (“AVCs”) arrangements

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs 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.

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 received. The Trustees receive regular investment training from their investment advisors and also investment managers in order to make informed decisions.

The Trustee body will discuss all investment decisions regarding strategy and manager structure with assistance from the Scheme’s investment advisers, before decisions are taken.

This document has been agreed and approved by the Trustees of the John Dewar and Sons Limited Pension Scheme