Statement of Investment Principles

This is the Statement of Investment Principles made by the Trustees of the Highland Distillers Pension Scheme ("the Scheme") in accordance with the Pensions Act 1995 (as amended). It is subject to periodic review by the Trustees at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustees consulted with the principal employer to the Scheme (Highland Distillers Limited) and have taken written advice from the Scheme Actuary and from the Investment Practice of Hymans Robertson LLP.

The Trustees are supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustees expect investment managers to comply with the code and to produce a statement of their commitment to the code.

Scheme Objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Trustees' over-riding funding principles for the Scheme are as follows:

- To achieve 100% funding on a buy-out basis by 2026; and
- To ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The value of liabilities is calculated on the basis agreed by the principal employer and the Trustees, having regard to actuarial advice. These funding positions are monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

Investment Strategy

The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme. All day to day investment decisions have been delegated to a number of authorised investment managers.

The strategic benchmark has been translated into benchmarks for the individual managers which are consistent with the Scheme's overall strategy. The Scheme benchmark is consistent with the Trustees' views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners), together with the level of disclosed surplus or deficit (relative to the funding basis used on an ongoing basis).

It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme, and will normally be reviewed annually. In reviewing performance and setting strategy, the Trustees will seek written advice from a suitably qualified person as required.

To achieve their objectives the Trustees have agreed the following:-

Choosing Investments

The Trustees have appointed Insight Investment as the Scheme's investment manager. The manager is authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Trustees have appointed the investment manager to primarily protect the Scheme against interest rate and inflation risks. The Trustees ensure that manager engagements have clearly defined benchmarks, objectives and management parameters.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Scheme. Where such tailoring is not directly achievable, the Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Scheme.

Remuneration for a mandate is determined at its inception based on value considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustees periodically review the fees paid to the Scheme's manager against industry standards.

The Trustees review the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustees seek and consider written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability. The Trustees recognise the long term nature of the Scheme's liability profile and appoints the manager to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

The duration of the mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage with the manager on an ongoing basis with no pre-determined term of appointment. The Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although the mandateremains subject to ongoing review against various financial and non-financial metrics in addition to its continued appropriateness within the investment strategy.

The Trustees review the performance of the manager and mandate on a regular basis against metrics, including meeting the objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

The Trustees monitor the manager's delivery of protection against interest rate and inflation risks on a regular basis. The amanager is expected to provide explanation for any significant deviations away from benchmark or target.

The Insight LDI and cash mandate is managed on a passive basis, whereby the objective is to match, rather than exceed, the performance of the liability profile.

The Trustees consider the approach described above to be suitable given the circumstances of the Scheme.

A summary of the Scheme's investment mandates and the respective benchmarks and targets is included in the Appendix.

Kinds of investments to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including fixed interest and index linked bonds, cash and property, either directly or through pooled funds. The Scheme may also make use of derivatives, contracts for difference and insurance contracts in the form of a buy-in (either directly or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Scheme

Balance between different kinds of investments

The Scheme's investment manager will hold a mix of investments which reflects the manager's views relative to their benchmarks. Within each major market the manager will maintain a diversified portfolio of assets through pooled vehicles.

Risk

The Scheme is exposed to a number of risks which pose a threat to meeting its objectives. The principal risks affecting the Scheme are:

Funding risks:

- Financial mismatch –

  1. The risk that Scheme assets fail to grow in line with the developing cost of meeting Scheme liabilities.

  2. The risk that unexpected inflation increases the pension and benefit payments and Scheme assets do not grow fast enough to meet the increased cost.

- Changing demographics – The risk that longevity improves and other demographic factors change increasing the cost of Scheme benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Scheme liabilities. .

The Trustees measure and manage financial mismatch in two ways. As indicated above, they have set a strategic asset allocation benchmark for the Scheme. They assess risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. They also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Trustees keep under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Trustees seek to mitigate systemic risk through a diversified portfolio and insurance contracts but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandate.

- Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustees measure and manage asset risks as follows. They provide a practical constraint on Scheme investments deviating greatly from the intended approach by setting diversification guidelines and by investing an investment mandate which has a defined objective, benchmark and manager process which, taken in aggregate, constrain risk within the Trustees' expected parameters. By investing across a range of assets, including bonds and cash, the Trustees have recognised the need for some access to liquidity in the short term. In appointing their investment managers, the Trustees have considered the risk of underperformance by the investment manager.

The Trustees do not expect the manager to take excessive short term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

The Trustee's approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets. When carrying out significant asset transitions, the Trustees take professional advice and consider the appointment of transition specialists.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustees monitor and manage risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Scheme.

Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the Actuary in funding the Scheme.

Realisation of investments

The manager invests on behalf of the Scheme in a range of its own in-house pooled funds and the majority of these funds may be realised quickly if required.

Portfolio turnover

The Trustees have expectations of the level of turnover within the mandate which is determined at its inception, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect the manager to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustees will challenge the manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustees will request turnover costs incurred by the asset manager over the Scheme reporting year.

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.

Strategic considerations

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Given the uncertainty inherent, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark.

Selecting investment managers

With respect to passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material, and accepts that the role of the passive manager is to deliver returns in line with the benchmark. The Trustees expect that passive managers would use voting rights to influence financially material factors where available – see below for more information.

Consideration of non-financially material factors in investment arrangements

The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with the investment manager and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The investment manager is expected to exercise the voting rights attached to individual investments in accordance with their own house policy. However, the Scheme no longer invested in quoted equities.

Where appropriate, the Trustees will engage with and may seek further information from their investment manager on how portfolios may be affected by certain issues.

The Trustees do not engage directly but believe it is appropriate for the investment manager to engage with key stakeholders, including corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, the investment manager is expected to notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment manager as part of broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where the manager is responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and has ensured that the manager has an appropriate conflicts of interest policy in place. The manager is required to disclose any potential or actual conflict of interest to the Trustees.

Monitoring

The investment manager reports on voting activity to the Trustees on a periodic basis. The Trustees will monitor the investment manager's voting activity and may periodically review the manager's voting patterns. The Trustees may also monitor the investment manager's voting on particular companies or issues affecting more than one company.

Where the Trustees deem it appropriate, any issues of concern will be raised with their investment manager for further explanation.

Additional Voluntary Contributions (AVCs)

The Trustees give members the opportunity to pay AVCs. A range of funds is available for investment at members' discretion.

Appendix

Asset Allocation

Asset class	Benchmark %
LDI & Cash	61
Buy-in	39
Total non-growth assets	100

Hedging arrangements

	Target hedge ratio*
Interest rate	100%
Inflation	100%

*as percentage of liabilities.

Assets split by Fund Manager

Manager	Benchmark %	Range %	Mandate	Assets
Insight	61	58 - 64	Passive	Liability Matching Funds and Cash
PIC	39	-	-	Buy-in

Manager Benchmarks and Control Ranges

Insight

	Benchmark %	Range %	Benchmark Index
LDI & Cash	100	N/A	-