

Lorne Stewart 2018 Pension Scheme ("the Scheme")

Statement of Investment Principles as required by the Pensions Act 1995 and the Pension Act 2004

April 2020

The Trustees confirm that the following matters have been taken into account when preparing this Statement of Investment Principles:

The Trustees have considered written advice from Stanhope Consulting (the "Investment Consultant") prior to the preparation of this Statement and has consulted Lorne Stewart Plc, (the "Principal Employer" or "Company"), before agreeing this Statement and the investment strategy outlined in this document.

Investment decisions are made following advice from the Investment Consultant. All day to day investment management decisions have been delegated to Investment Managers where the Investment Managers are authorised and regulated by the Financial Conduct Authority.

The Trustees have full regard to its investment powers under the Trust Deed and Rules and the suitability of types of investments, the need to diversify, the custodianship of assets and any self-investment.

The Investment Managers and Investment Consultant will continue to prepare detailed quarterly reports on its activities and the Trustees will meet with representatives of the Investment Managers and Investment Consultant as required.

This Statement of Investment Principles will be reviewed at least every three years or whenever changes to the principles or strategy are necessary. Any changes to this Statement will be undertaken having taken advice, as appropriate, and following consultation with the Principal Employer.

1. General

This statement sets out the principles governing decisions about the investment of the assets of the Lorne Stewart 2018 Pension Scheme (the "Scheme"). It has been prepared by the Trustees to comply with section 35 of the Pensions Act 1995 (the "Act") as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustees review the Scheme's investment strategy at least every three years, as part of each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way).

2. Consulted Parties

As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from the Investment Consultant on the suitability of the investments, the need for diversification and the principles contained in this Statement. The Investment Consultant is authorised and regulated by the Financial Conduct Authority ("FCA").

The Trustees, in preparing this Statement, have also consulted the Company, as Principal Employer, in particular on the Trustees' objectives and investment strategy.

3. Investment Powers

The Trustees recognise that the assets must be invested in the best interests of members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of members and beneficiaries. The Trustees have overall responsibility for the prudent management of the Scheme's assets. The strategic management of the Scheme assets is fundamentally the responsibility of the Trustees, acting on advice from the Investment Consultant, and is driven by its investment objectives as set out in Section 4 below.

The remaining elements of policy are part of the day-to-day management of the assets that is delegated to the professional investment managers, who are authorised and regulated by the FCA. Schedule A outlines the current list of professional investment managers who manage the Scheme's assets.

4. Investment Objectives

The Trustees' primary objectives for setting the investment strategy of the Scheme are set out below:

- "funding objective" - to ensure that the Scheme is fully funded using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Principal Employer;
- "security objective" — to ensure that the solvency position of the Scheme (as assessed on a prudent basis) is expected to improve;

- "stability objective" — to have due regard to the Company's ability in meeting its contribution payments given its size and incidence, and to have due regard to the volatility of measures of funding and security; and
- "liquidity objective" — to ensure, that over the shorter-term, the Scheme's income and cash holdings, including contributions and investment income, will meet expenditure, for example on the provision of benefits and administration services except when exceptional payments are needed, such as members taking cash sums at retirement.

The investment arrangements outlined in Sections 6, 7 & 8 have been designed with these considerations in mind.

5. Choosing investments

The Trustees recognise that there are two main factors driving the investment characteristics of the pension liabilities:

- Firstly, the actuarial calculation of the liabilities of the Scheme uses a discount rate linked to bond rates and thus investments in similar bonds would result in asset values moving in a similar pattern - "matching assets"; and
- Secondly, the liabilities include those increased annually for inflation (with some caps). Thus these individual liabilities have a direct link to inflation i.e. they are "real" liabilities as opposed to "nominal" liabilities.

Therefore it is considered that the best "matching assets" for the liabilities are a mixture of nominal and primarily index-linked bonds of appropriate durations. Such a portfolio of assets could be considered a "minimum risk" portfolio.

However the concurrent existence of a funding deficit within the Scheme and the support of a sponsor are considered to justify a departure from a "minimum risk" position by investing, in return seeking assets in the interim until relative market pricing and funding levels permit a reduction in the level of investment risk. The Trustees work with the Scheme Actuary and the Investment Consultant to decide what degree of risky assets are appropriate at each given point in time.

In addition, the Trustees recognise the "regret risk" associated with not holding return seeking investments over the longer term. Consequently, the Trustees feel that some equities are appropriate in an effort to improve the ongoing and solvency positions and to reduce the reliance on the Company's contributions to fund liabilities. However, both the Trustees and the Company recognise that holding return seeking assets will bring increased volatility of sponsor contribution requirements in anticipation of reduced costs in the long term.

6. Investments to be held

All investments to be held are to be managed by an FCA authorised and regulated investment manager.

Currently the Trustees invest in equities, bonds, property and pooled investment vehicles.

7. Distribution of Investments

The Trustees recognise that the key source of financial risk (in relation to meeting its objectives) arises from asset allocation and therefore retains responsibility for setting asset allocation, and takes expert advice as required from its professional advisers.

As at the date of adoption of this Statement, the Trustees' central benchmark for its investment distribution across asset classes was as shown below:

Asset Class	%
Multi Fund	18 – 35
Bonds	30 - 35
Property	10 - 15
Global Equity	18 – 35
Cash	0 – 2
Total	100

Rebalancing between asset classes is undertaken from time-to-time based on advice from the Trustees' investment advisor. The Trustees will monitor the funds they are invested in and any changes to the current funds will be discussed between the Trustees and their Investment Consultant.

Further details of the funds in which the Scheme invests in are shown in Schedule A.

8. Performance Benchmark

The Investment Managers' objective is for all of the funds to achieve the performance of the relevant benchmark within an appropriate tolerance range.

Asset Class	Benchmark Index
Multi Fund	3-month LIBOR (Target LIBOR+3%)
Bonds	iBoxx Sterling+ 10yrs Non-Gilts
Property	IPD All Balanced Property Funds Index
Global Equity	MSCI World Sterling Index
Cash	None

9. Realising investments and rebalancing

In general, the Investment Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.

As the Scheme's benefit payments are greater than contributions to the Scheme, there is generally a need to realise investments for cashflow purposes. Where possible, distributions received from the investments should be used as the primary source of cashflows. Additionally the Trustees will disinvest assets in order to hold an appropriate short-term cash reserve to fulfil its liquidity objective.

Separate rebalancing between asset classes will be undertaken from time-to-time based on advice from the Trustees' investment advisor.

10. Risk

In determining its investment policy, the Trustees have considered the following risks:

- the risk of failing to meet the objectives set out in Section 4 – the Trustees will regularly take advice and monitor the investments to mitigate this risk;
- funding and asset and liability mismatch risk – the Trustees address this through the asset allocation strategy and through regular actuarial and investment reviews;
- underperformance risk – this is addressed through investment in passive funds, monitoring closely the performance of the Investment Managers and taking necessary action when this is not satisfactory;
- risk of inadequate diversification or inappropriate investment – the Trustees address this by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock or sector;

- organisational risk — this is addressed through regular monitoring of the Investment Managers;
- sponsor risk — the Trustees seek to maximise overall investment returns subject to an acceptable level of risk and, as far as possible, are mindful of the impact of any volatility on the rate of contribution;
- liquidity risk — the Trustees may need to pay pension and lump sum benefits in the short-term and, therefore, address this risk by investing an appropriate amount in assets that are realisable at relatively short notice; and
- credit and market risks — the Trustees accept a degree of each of these risks in the expectation of being rewarded by excess returns. The degree to which these risks are currently exposed to is expanded on further below.

The Trustees will monitor these risks from time-to-time, particularly those deemed to have high likelihood or significant adverse impact, and will look to introduce further control measures as appropriate to contain the overall level and distribution of risks to within acceptable limits.

Credit and market risks

This section includes a definition of investment risks based on the Financial Reporting Standard 102 (FRS102) and outlines the Scheme's exposure to various risks.

FRS 102 requires disclosure of information that allows users of financial statements to understand the nature and extent of credit risk and market risk emanating from the assets in which the Scheme invests. Under FRS 102, credit risk and market risk are defined as follows:

- Credit risk: The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.
 - Interest rate risk — the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
 - Currency risk — the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
 - Other price risk — the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Credit risk summary

Some of the Scheme investments are exposed to direct credit risk. The Scheme is also indirectly exposed to credit risk through the corporate bond and derivative holdings (swaps and repos) in Bonds and Multi Fund.

- Global Equity – this direct credit risk is mitigated by the fact that the assets are ring-fenced from the investment managers and the regulatory environments in which the investment managers operate. In addition, the Trustees carry out due diligence prior to investing in global equities, taking advice from their investment advisor and legal advisor where relevant.
- Bonds - credit risk is mitigated by investing in government index-linked bonds where the credit risk is minimal or corporate bonds which are rated at least A or above.
- Multi Fund - this direct credit risk is mitigated by the fact that underlying assets within these pooled funds are ring-fenced from the investment managers and the regulatory environments in which the investment managers operate. In addition, the Trustees carry out due diligence prior to investing in a pooled fund, taking advice from their investment advisor and legal advisor where relevant.
- Swaps & repos (indirect exposure) - the credit (counterparty) risk of these instruments is managed by the use of central clearing for swaps, diversifying counterparty exposure and requiring high-quality collateral (cash or gilts) from each side.
- Cash - the Scheme is also exposed to indirect credit risk across the pooled funds to the extent that there are underlying cash holdings.

Market risk summary

Below is a summary of the Scheme's exposure to market risk and the risk management tools used by the Trustees.

- Interest rate risk - the Scheme is subject to interest rate risk through its investments in the Multi Fund and Bonds. The Multi Fund also has a leverage effect which leads to a larger economic exposure to interest rate risk. However, while the market values of the investments are sensitive to changes in interest rates, they are held because this sensitivity can largely offset the Scheme's liability exposure to interest rates, overall reducing the funding level risk.
- Currency risk - the Trustees acknowledge that the Scheme's liabilities are all payable in sterling. The Trustees are exposed to some currency risk due to investing in Global Equity.
- Other price risk - The Scheme is also exposed to changes in market prices through its investment in Property and Global Equity.

The Trustees periodically monitor the Scheme's overall asset mix and will undertake corrective action if it believes the Scheme is becoming too heavily weighted towards a particular asset class.

11. Policy on Environment, Social and Governance (ESG) factors and Stewardship

The Investment Managers are responsible for managing the Scheme's investments in accordance with the management agreements in place with the Trustees. The Trustees have delegated the responsibility for the exercise of all rights (including voting rights) attaching to the investments to the Investment Managers.

The Trustees are responsible for setting the Scheme's investment strategy and implementing that strategy through the appointment of investment managers and selection of investment funds, including obtaining advice from the Investment Consultant.

When setting investment strategy and selecting investments, the Trustees' first priority is the financial interests of their members. The Trustees regularly review the return objectives, risk characteristics, investment approach and investment guidelines of each of the Scheme's current investments. The Trustees are satisfied that all existing fund investments fulfil the needs of their target investment strategy and by extension, that the Investment Managers are managing the Scheme's assets in a manner which is consistent with members' financial interests.

The Trustees acknowledge that certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Scheme's investments and the likelihood that the Scheme's objectives will be achieved. To confirm, no consideration has been given to non-financial considerations, nor has the Scheme's membership been consulted on such issues.

As part of the selection, retention and realisation of the Scheme's investments, the Trustees, in consultation with their Investment Consultant, have reviewed the ESG and stewardship policies of the Investment Managers and are comfortable that these policies are consistent with their views. In particular, the Trustees note the following:

- The Investment Managers have clear views on ESG factors and stewardship which are clearly articulated in formal policies on these issues.
- The Scheme's investments are predominantly passively managed where the Investment Managers are restricted in the choice of underlying assets to invest in. As such, stewardship is of primary importance in ensuring that financially material ESG factors are given appropriate consideration.
- The Trustees note that the Investment Managers have clear stewardship policies that aim to influence the ESG practices of the companies it invests in and the Investment Managers have demonstrated how it acts on these policies. For example, the Investment Managers have voted on company proposals covering climate risk, political donations, gender diversity on company boards, board independence issues and remuneration policies.

- The Investment Managers regularly publish detailed results of how its stewardship policies are enacted in practice and the Trustees expect the Investment Managers to provide regular updates on how they exercise those rights, including how often the Investment Managers vote against company proposals.

The Trustees will keep its investments under review, and should it feel that the Investment Managers no longer act in accordance with its views on ESG, the Trustees will take the following steps:

- engage with the Investment Managers in the first instance, in an attempt to influence their policies on ESG and stewardship; and
- if necessary, look to appoint a replacement investment manager or managers that are more closely aligned with the Trustees' policies and views.

These statements are made noting that the Scheme's assets are invested in pooled funds and as such, the Trustees are restricted in their ability to directly influence its Investment Managers on the ESG policies and practices of the companies in which the pooled funds invest.

12. Governance

The Trustees are responsible for the investment of the Scheme's assets. The Trustees take some decisions themselves and delegates others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision making structure:

<p>Trustees</p> <ul style="list-style-type: none"> • Select and monitor planned asset allocation strategy; • Select and monitor investment advisers and fund managers; • Responsible for all aspects of the investments of the Scheme's assets, including implementation.
<p>Investment Adviser</p> <ul style="list-style-type: none"> • Select and monitor direct investments; • Advise on this statement; • Advise the Trustees on areas of strategy, manager selection and implementation as required; • Provide required training when engaged on a separate basis by the Trustees.
<p>Fund Managers</p> <ul style="list-style-type: none"> • Operate within the terms of this statement and their written contracts; • Select individual investments with regard to their suitability and diversification.

The Act distinguishes between investment where the management is delegated to a fund manager within a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustees' policy is to review their direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager.

The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement.

The Trustees recognise that, as the Scheme is invested in a range of Pooled Funds, there is limited scope to influence the controls and restrictions used in the management of the underlying assets and acknowledge that derivatives may be used by the manager within the funds.

The Trustees have delegated all day-to-day decisions about the investments that fall within the mandate to the fund manager through a written contract.

These duties include realisation of investments, taking into account socially responsible factors and voting and corporate governance in relation to the financial potential of the Scheme's assets.

The Trustees expect the fund manager to manage the assets delegated to them under the terms of their contract and to give effect to the principles in this statement so far as is reasonably practicable.

The Trustees will continue to monitor the investment performance of the assets. The Investment Consultant will provide a quarterly investment report, and the secretary to the Trustees will also prepare a monthly investment update.

13. Custodian

The investments held by the Trustees are a share (measured in units) of larger pools of investments managed by Investment Managers. The Trustees have custodianship arrangements in place for their investments. The Investment Managers or Custodians are expected to provide a statement of the security of the underlying assets annually.

14. Fees

The annual management charges levied by the Investment Managers are expected to be:

Multi Fund	Up to 1% p.a.
Bonds	Up to 1% p.a.
Property ¹	Up to 1% p.a.
Global Equity	Up to 2% p.a.
Cash	Up to 1% p.a.

¹Additional performance fees may be payable.

Further details of the exact annual management charges levied on the funds in which the Scheme invests in are shown in Schedule A.

Date:

Signed:

For and on behalf of the Trustees of the Lorne Stewart 2018 Pension Scheme

Schedule A

As at the date this Schedule is signed, the funds the Trustees have currently selected across the main asset classes are shown in the table below.

The Trustees will continue to monitor these funds and will seek advice from their Investment Consultant before any switches are carried out.

Asset Class	Fund	Annual Management Charge	Performance Fee
Multi Fund	BlackRock Dynamic Diversified Growth Fund	0.35% on first £10m of assets 0.20% on next £10m 0.125% thereafter	N/A
Bonds	BlackRock Institutional Bond Fund – 10+ Year Fund BlackRock Fixed Interest Global Alpha Fund	0.35% on first £10m of assets 0.20% on next £10m 0.125% thereafter	N/A
Property	BlackRock UK Property Fund Summix Capital Partners I Fund	0.35% on first £10m of assets 0.20% on next £10m 0.125% thereafter 1.00%	N/A 10% of returns over 8%
Global Equity	Artemis Global Income Fund Baillie Gifford Global Stewardship Fund Fundsmith Equity Fund Schroders Global Equity Fund	0.82%* 0.53%* 0.95%* 0.53%*	N/A N/A N/A N/A

* These charges represent the Ongoing Charges Figure, which is made up of the Annual Management Charge and a variety of other operating costs.

Date:

Signed:

For and on behalf of the Trustees of the Lorne Stewart 2018 Pension Scheme