Bairds Malt Pension Scheme

Statement of Investment Principles – September 2020

1. Introduction

The Trustee Directors (Bairds Malt (Pension Trustees) Limited) as Trustee to the Bairds Malt Pension Scheme (the "Scheme") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with Bairds Malt (the "Sponsoring Company") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements and, in particular, on the Trustee's objectives.

2. Process For Choosing Investments

The Trustee has appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution, to implement the Trustee's strategy whereby the level of investment risk reduces as the Scheme's funding level improves. In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE")) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis.

In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Policy and Risk

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee acting on advice from their investment consultant, and is driven by their investment objectives as set out below. The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment managers and described in the Investment Implementation Policy Document ("IIPD"). The format of this Statement is designed to provide a logical statement rather than an ordered response to the Act. The Trustee believes, however, that it incorporates a response to all the requirements of the Act.

4. Investment Objectives

The Trustee understands that taking some investment risk, with the support of the Sponsoring Company, is necessary to improve the Scheme's funding level. The Trustee recognises that equity (and other growth asset) investment will bring increased volatility of the funding level, but in the expectation of improvements in the Scheme's funding level through growth asset outperformance of the liabilities over the long term.

The Trustee's primary objective is to make sure the Scheme can meet its obligations to the beneficiaries of the Scheme. The long term objective of the Trustee is to achieve 100% funded on a self-sufficiency basis that is with a low risk investment policy and with reduced reliance on funding from the Sponsoring Company.

The Trustee recognises that this ultimately means investing in a portfolio of bonds and other liability driven investments but believe that at the current time some equity and growth asset investment is justified to target enhanced return expectations and thereby target funding level improvements. The Trustee recognises that this introduces investment risk and these risks are discussed below.

Further detail on the funding basis and timeframes are given in Section 6. The Trustee will monitor progress against this target. The Trustee believes that the investment strategy adopted for achieving this objective will also be appropriate for achieving the objectives of avoiding significant volatility in the contribution rate over the longer term. The Trustee recognises that investment in return seeking assets could potentially lead to volatility in the contribution rate over shorter time periods.

The Trustee has also considered the need for liquidity within the investment arrangements to pay benefits as they fall due.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations are discussed in section 12.

5. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management over the Scheme's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities.

- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more volatility in the Scheme's funding position.

- To control the risk outlined above, the Trustee, having taken advice, set the split between the Scheme's Growth and Matching Portfolio such that the expected return on the overall portfolio is sufficient to meet the objectives outlined in Section 4. As the funding level improves, investments will be switched from growth assets into matching assets with the aim of reducing investment risk. Mercer provides the Trustee with regular reports regarding the Scheme's asset allocation.

- The Trustee recognises that even if the Scheme's assets are invested in matching assets there may still be a mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between matching assets and actuarial liabilities.

- 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, Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio.

- To help the Trustee ensure the continuing suitability of the current investments, Mercer provides the Trustee with regular reports regarding the performance of the underlying asset managers within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes, the Trustee believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where due to relatively efficient markets the scope for added value is more limited.

- To help diversify manager specific risk, within the context of each of the Growth and Matching Portfolios, the Trustee expects that the Scheme's assets are managed by appropriate underlying asset managers.

- By investing in the Mercer Funds, the Trustee is investing in Funds that are regulated by the Central Bank of Ireland and have specified liquidity provisions. These Funds may hold unregulated investments, but the use of unregulated investments is normally only made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management and in line with the legal documentation for the Fund. In any event the Trustee would ensure that the assets of the Scheme are predominantly invested on regulated markets.

- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.

- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 12 sets out how these risks are managed.

- Responsibility for the safe custody of the Scheme's assets is delegated to MGIM who has appointed State Street Bank and Trust Company ("State Street") as custodian of the assets invested in their pooled vehicles. MGIM is responsible for keeping the suitability of State Street under ongoing review.

Should there be a material change in the Scheme's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular, whether the current de-risking strategy remains appropriate.

In addition, the investment strategy will be reviewed approximately annually.

6. **Investment Strategy**

The Trustee, with advice from the Scheme's Investment Consultant and Scheme Actuary and in conjunction with the Sponsoring Company, reviewed the Scheme's investment strategy in 2014, and thereafter in 2015 when a recalibration was carried out prior to implementing the strategy. The Scheme's investment strategy will be reviewed approximately annually thereafter.

The initial review considered the Trustee's investment objectives, their ability and willingness to take risk (the risk budget) and how this risk budget should be allocated and implemented (including de-risking strategies).

Following the review, the key decision was to seek a long term solution to 'de-risk' the Scheme's assets relative to its liabilities over time using a dynamic trigger based de-risking framework. The Trustee decided to engage Mercer to implement their de-risking strategy by way of its Dynamic De-risking Solution ("DDS"). DDS relates the asset allocation to the Scheme's funding level (on an actuarial basis using a single discount rate of appropriate gilt yields). The de-risking rule mandates the following practices:

- To hold sufficient growth assets to target full funding on a "gilts +0.5%" basis;
- To reduce the volatility in the funding level by reducing un-hedged liability exposures;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The de-risking triggers which form the basis of the Scheme's dynamic investment strategy are set out in a separate document – the Investment Implementation Policy Document ("IIPD").

For the avoidance of doubt, once the funding level has moved through a band, the asset allocation will not be automatically "re-risked" should the funding level deteriorate. The Trustee has delegated the allocation of assets within the growth and matching portfolios to Mercer.

Responsibility for monitoring the Scheme's asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer reports quarterly to the Trustee on its rebalancing activities.

7. **Other assets**

In addition to the assets managed by Mercer, the Scheme also holds some historical AVC arrangements.

8. **Realisation of Investments**

The Trustee on behalf of the Scheme hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

9. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Scheme's assets in line with the Scheme's strategic allocation. Mercer is responsible for raising cashflow to meet the Scheme's liabilities.

10. Rebalancing

Rebalancing ranges have been set within the growth and matching portfolios to ensure the Scheme's assets remain invested in a manner which is consistent with the Guidelines agreed by the Sponsoring Company.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced growth portfolio weight, under the new de-risking band, as defined in the IIPD.

11. ESG, Stewardship, and Climate Change

The Trustee believe that environmental, social and governance (ESG) factors may have a material impact on investment risk and return, and that good stewardship can create and preserve value for companies and markets. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and as such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practise, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee understands how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment process and those of the underlying managers in the monitoring process. Mercer, and MGIE, will provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon footprint analysis for equities and/or climate scenario analysis for diversified portfolios.

Member views

The Trustee does not currently take members' views into account in the selection, retention and realisation of investments. However, the Trustee believes that the delegation of portfolio construction to Mercer, and MGIE, will lead to ESG considerations that are in the best interests of the Scheme as a whole.

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.

12. **Trustee policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs**

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 6, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in section 6. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustee receives, and considers, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustee is invested. Such reports have information covering fund performance for the previous three months, one year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer nor MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 11 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustee is a long term investor and is not looking to change the investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors, and evaluates, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 6. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also includes details of the transaction costs associated with investment in the Mercer Funds.

The Trustee does not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

13. Review of this Statement

The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Sponsoring Company which they judge to have a bearing on the stated Investment Policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone whom the Trustee reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Approved on behalf of the Trustee