THE NORTH BRITISH DISTILLERY COMPANY LIMITED
PENISON SCHEME

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The North British Distillery Company Limited Pension Scheme

Statement of Investment Principles

Background

This Investment Statement sets out the principles governing decisions about investments for The North British Distillery Company Limited Pension Scheme ("the Scheme") to meet the requirements of The Pensions Act 1995, as amended by the Pensions Act 2004, and The Occupational Pension Schemes (Investment) Regulations 2005. It is subject to periodic review by the Trustees at least every three years and more frequently as appropriate.

In preparing this Statement, the Trustees have consulted with the principal employer (The North British Distillery Company Ltd) and have taken professional advice from their Investment Consultant (Isio).

The Trustees are aware of the Myners principles, which set out a code of conduct for investment decision making and governance and have reviewed their responsibilities and activities in the context of these principles.

Investment objective

The Scheme closed to new entrants but remained open to future benefits accrual on 1 January 2008. Subsequently, on 31 December 2014, the Scheme closed to future benefit accrual.

The primary objective of the Scheme is to provide pension and lump sum benefits for the current members on their retirement, and/or benefits on death, before or after retirement for their dependents, on a defined benefit basis. There is also an aspiration of the Scheme achieving a full insurance buyout at some point in the future.

Now that the Scheme has achieved a fully funded position on a Technical Provisions basis, the Trustees' funding objective is to reach and maintain a fully funded position on an insurance buy-out basis. The focus will then be to look to secure all Members' benefits with an insurance contract. The Trustees also consider the Scheme's funding position on other relevant bases for valuation and accounting. Funding positions are monitored regularly by the Trustees and formally reviewed at each triennial 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 (the "strategic benchmark"). All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark (set out in the Appendix A) is reflected in the choice and mix of funds in which the Scheme invests. 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, together with the level of disclosed surplus or deficit (relative to the Technical Provisions funding basis and a proxy for an insurance buy-out funding basis). The Trustees monitor fund performance relative to their agreed asset allocation benchmark. It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme, and will normally be reviewed annually. In monitoring performance and setting strategy, the Trustees seek written advice from a suitably qualified person as required.

The Scheme has exposure to both public and private investment markets, and employs a mix of both active and passive management. The investment management structure of the Scheme is discussed in more detail in the Myners Code Adherence document.

Choosing investments

The Trustees, after seeking appropriate investment advice, have chosen the investment managers to implement the agreed strategy. However, specific investment choices have been delegated to these managers subject to their respective benchmarks and asset guidelines. The managers invest in their in-house pooled funds in order to achieve the desired asset allocation.

The Trustees have appointed Baillie Gifford & Co ("Baillie Gifford"), Legal and General Investment Management ("LGIM"), M&G Investment Management ("M&G"), PIMCO Europe Limited ("PIMCO") and CQS Investment Management ("CQS") as investment managers. Each manager is authorised under the Financial Services and Markets Act 2000 to undertake investment business.

With the exception of the LGIM liability driven investment ("LDI") funds, assets are managed on an active basis: that is, the managers seek to exceed the performance of the benchmark index. LGIM manages the LDI fund assets on behalf of the Trustees on a passive basis, whereby the objective is to match, rather than exceed, the performance of the nominated benchmark.

The Trustees consider the different managers and asset classes described above, and the balance between them, to be suitable given the circumstances of the Scheme. This combination results in a diversified mix of assets, geographic spread and number of investments held. An analysis of Scheme investments by fund manager and asset class, as at 30 June 2021, is set out in Appendix A.

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property, either directly or through pooled funds. The Scheme also makes use of derivatives and contracts for difference 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.

A summary of the policies the Trustees' have in place in relation to the investment management arrangements for the Scheme are summarised in Appendix C.

Risk

The Trustees analyse the level of risk and the drivers of risk with the Scheme’s investment strategy in detail when reviewing the Scheme’s investment strategy.

On an ongoing basis, the Trustees monitor risk in two ways. As indicated above, they have established a strategic asset allocation benchmark for the Scheme (given in the Appendix A). 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 provide a practical constraint on Scheme investments deviating greatly from the Trustees’ intended approach by adopting a specific asset allocation benchmark and by monitoring the underlying asset class weights relative to this benchmark on a regular basis.

The investment strategy is suitably diversified, with the balance of different asset classes and investment managers mitigating the impact (at the aggregate level) of underperformance by any single manager.

The Scheme also employed LGIM to operate an implementation framework for the Scheme’s liability hedging strategy, in order to reduce interest rate and inflation risks. The framework employed a combination of market based and time based implementation triggers to increase hedge levels from a target of 28% in May 2015 to 60% in early 2017. The pace of the time-based hedge increase was increased in Q1 2016 in order to shorten the expected timeframe to achieve the target 60% hedge. Subsequently at the meeting held in March 2017, the Trustees agreed to rebalance the hedge, following receipt of updated liability cashflow information, to an updated target of 70%, and again in July 2019 to an updated target of 80%, and most recently to 85% in July 2021.

Further information on the risks, financially material considerations and non-financial matters that have been considered when deciding on the Scheme’s investment strategy are set out in Appendix B.

Expected return on investments

The investment strategy aims to achieve a return on Scheme assets which, taken in conjunction with contributions, is sufficient, over time, to match growth in the Scheme’s pension liabilities.

The overall performance target (i.e. the expected return on the Scheme’s investments) has been set at +2.2% over gilts.

Realisation of investments

The Trustees operate a bank account for daily cash flow needs and a formal cashflow policy is in place.

The significant majority of the Scheme’s investments may be realised quickly if required. The diversified credit allocation, which has a target weight of 28%, is split between a 12% allocation to PIMCO with the remainder, 16%, to M&G. The PIMCO fund has daily liquidity available whilst the M&G fund has monthly liquidity. The semi-liquid credit allocation, which has a target weight of 20%, is allocated to CQS. The CQS fund has monthly liquidity available. All other asset allocations can be realised either daily or weekly.

Environmental, Social and Governance considerations

The Trustees recognise that environmental, social and governance (“ESG”) considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The managers have been delegated by the Trustees to act accordingly in this respect

The Trustee’s investment managers provide annual reports on how they have engaged with issuers regarding ESG considerations. The Trustees also receive information from their investment advisers on the investment manager’s approach to engagement. In the case where managers have not acted in accordance with their policies and frameworks or if the manager’s policies are not in line with the Trustees’ policies with regards to ESG factors, there is scope for further monitoring and engagement by the Trustees beyond the annual reports and regular updates.

LGIM adopts an index tracking basis for its LDI mandate; consequently, there is little discretion over the choice of security in which investment is made.

LGIM, Baillie Gifford, M&G and PIMCO have adopted the UN Principles of Responsible Investment (“UNPRI”). Previously CQS had not been a signatory of the UNPRI. However, they took the decision to become a signatory over the past year, officially signing the principles in July 2019.

The Trustees actively incorporate ESG considerations within their decision-making process when reviewing and implementing any changes to the Scheme’s investment strategy and manager line-up. They also incorporate ESG considerations as part of the on-going monitoring of the Scheme’s investments. Further information in relation to this is set out in Appendix B.

Exercise of voting rights

The Trustees have delegated the exercise of voting rights to the 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 managers have produced written guidelines of their process and practice in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Additional voluntary contributions (AVCs)

A number of members have made AVC contributions. However, the AVC arrangement is now closed to all members, following cessation of accrual within the Scheme from 31 December 2014.

Signed for and on behalf of the Trustees of the
The North British Distillery Company Limited Pension Scheme
November 2021.

James Paul & Partners Limited
Trustee

ACMCA Limited
Trustee

Alan Kilpatrick
Trustee

Fraser MacDonald
Trustee

David Rae
Trustee

William Copland
Trustee

Appendix A

Asset split by fund manager (as at 30 June 2021)

Fund Manager	£m	%	Mandate	Assets
LGIM	29.9	24.3	Passive	Liability Driven Investment Funds.
	12.2	9.9	Active	Absolute Return Bonds
Baillie Gifford	19.9	16.2	Active	Diversified Growth
M&G	18.7	15.2	Active	Diversified Credit
PIMCO	14.0	11.4	Active	Diversified Credit
CQS	25.9	21.1	Active	Semi-liquid Credit
Trustee Bank Account	2.3	1.9	n/a	Cash
Total	**123.0**	**100.0**		

Figures may not sum due to rounding.

Asset split by asset class (as at 30 June 2021)

Asset Class	Strategic Benchmark (%)	Actual (%)	Expected Return[1] (%)	Volatility[1] (%)
Diversified Growth	14.0	16.2	3.5	12.5
Diversified Credit	28.0	26.6	2.6	6.5
Absolute Return Bonds	10.0	9.9	1.3	4.4
LDI	26.0	24.3	0.0	11.6
Semi-liquid Credit	20.0	21.0	3.5	9.0
Cash	2.0	1.9	0.0	1.0
Total	**100.0**	**100.0**	**2.2**	**8.8**

Figures may not sum due to rounding. [1]Expected return and total volatility assumptions quoted relative to Gilts and based on Isio's central assumptions as at 30 June 2021.

Gilt and Liability Driven Investment split by fund (as at 30 June 2021)

Asset Class	Actual (%)	Leverage[1]
2038 Leveraged Gilt	8.6	3.9
2045 Leveraged Gilt	4.7	3.5
2049 Leveraged Gilt	6.5	3.3
2055 Leveraged Gilt	4.4	3.2
2060 Leveraged Gilt	5.0	3.1
2068 Leveraged Gilt	5.3	3.1
2024 Leveraged Index Linked Gilt	8.2	4.1
2030 Leveraged Index Linked Gilt	9.2	4.8
2034 Leveraged Index Linked Gilt	0.4	3.9
2037 Leveraged Index Linked Gilt	13.5	4.0
2042 Leveraged Index Linked Gilt	1.1	3.3
2047 Leveraged Index Linked Gilt	13.3	2.6
2050 Leveraged Index Linked Gilt	0.1	2.2
2055 Leveraged Index Linked Gilt	6.0	2.4
2062 Leveraged Index Linked Gilt	5.9	1.6
2068 Leveraged Index Linked Gilt	3.2	1.4
Sterling Liquidity Fund	3.6	1.0
Total	**100.0%**	**3.2**

Figures may not sum due to rounding. [1]Leverage is defined as notional exposure (£gilts)/physical exposure (£gilts+£cash)

Managers Fees split by fund (as at 30 June 2021)

Manager	Fund	Fees (p.a.)
Baillie Gifford	Diversified Growth Fund	0.65%
M&G	Alpha Opportunities Fund	0.50%
PIMCO	Diversified Income Fund	0.69%
LGIM	LDI Funds	0.24%
CQS	Multi Asset Fund	0.65%
LGIM	Absolute Return Bond Fund	0.25%

Appendix B – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees of the Scheme seek to adopt an integrated risk management approach. The three key risks associated in this framework and how they are managed are stated below:

Risks	**Definition**	**Policy**
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the principle employer's covenant strength. • Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Scheme's Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme	• When developing the Scheme's investment and funding objectives, the Scheme's Trustees take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to its investment strategy. These are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 85% of these risks on a Gilts flat liability basis.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values) and provide collateral to the LDI manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.

		To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme's investors for the risk of default.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustees monitor the mangers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Allow the Scheme's active managers who invest in overseas securities the flexibility to hedge overseas currency exposure to manage risk.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix C – Investment Management Arrangement Policies

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.	As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	The Trustees' review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.	The Trustees' review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Scheme's arrangements with the investment managers	The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. o The Scheme does not currently invest in closed ended funds. o For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

The North British Distillery Company Limited Pension Scheme

Implementation Statement

Background
The Department for Work and Pensions ("DWP") has increased regulation to improve disclosure of financially material risks. The regulatory changes recognise that Environmental, Social and Governance ("ESG") factors are financially material to the Scheme, stating that pension scheme trustees are required to consider how these factors are managed as part of their fiduciary duty.

The regulatory changes require that the Trustees detail the Scheme's policies in relation to financially material risks and stewardship in its Statement of Investment Principles ("SIP"), and to demonstrate their adherence to these policies in an Implementation Report.

Statement of Investment Principles
The Trustees have updated the Scheme's SIP in response to the DWP regulation to cover:

- Policies for managing financially material considerations, including ESG factors and climate change; and
- Policies on the stewardship of the Scheme's investments.

The SIP can be found online at the web address: thenorthbritish.co.uk.

Changes to the SIP are detailed within this report.

Implementation Report

This Implementation Report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- Actions the Trustees have taken to manage financially material risks and implement the key policies outlined within the Scheme's SIP;
- The Trustees' current policies and approach to ESG considerations, and the actions taken with each of the Scheme's current investment managers on managing ESG risks;
- The extent to which the Trustees have followed policies relating to engagement, covering both their engagement with the Scheme's investment managers and the engagement activity of each of the investment managers with the companies and counterparties in which they invest; and
- The voting behaviour of the Scheme's investment managers covering the reporting year to 31 December 2021 where available (noting the Trustees' delegation of Scheme voting rights to the investment managers through its investment via pooled fund arrangements).

Summary of Key Actions Undertaken over the Scheme's Reporting Year

Following the continued improvement in the Scheme's funding position, as outlined in the Scheme Actuary's Annual Funding Update, dated 31 December 2020, the Trustees agreed to further restructure the Scheme's target investment strategy. The changes made to the strategic benchmark over the reporting period included:

- Introduction of an Absolute Return Bonds mandate: The Trustees agreed to introduce a 10% strategic allocation to Absolute Return Bonds with LGIM to better utilise the cash allocation (c.£12.6m), which was released following the restructuring of the LDI portfolio in December 2020. The implementation of the new Absolute Return Bonds mandate was completed on 18 May 2021.

- Increase to the hedge target of the Scheme's LDI portfolio: The Trustees agreed to increase the LDI portfolio's target hedge ratio from 80% of the liabilities' sensitivity to interest rate and inflation movements to 85% (on a gilts flat basis). To ensure LGIM had sufficient capital to implement the agreed hedge, c.£2.7m was sourced from the Scheme's Diversified Growth mandate held with Baillie Gifford – this action brought the mandate broadly in line with its strategic target. The implementation of the revised LDI hedge took place on 13 August 2021.
- Introduction of a strategic allocation to cash: The Trustees agreed to introduce a 2% strategic allocation to cash, to help further de-risk the Scheme's investment strategy, and to act as an ongoing source of liquidity to fund the Scheme's cashflow requirements. The implementation of the new Cash allocation was completed on 18 May 2021.

Implementation Statement

This report demonstrates that the Trustees of the North British Distillery Company Limited Pension Scheme have adhered to the Scheme's investment principles and their policies for managing financially material considerations, including ESG factors and climate change.

Fraser MacDonald **Trustee**	**James Paul & Partners Limited** **Trustee**

6 April 2022